CONSERVATIVE INSTITUTE OF MILAN RASTISLAV ŠTEFÁNIK

DRAFT OF WELFARE REFORM IN SLOVAKIA

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*–––––––– "Giving a fish to the poor man, you will feed him for one day; teaching ––––––
him the way of fishing,you will help him for his whole life."
(Chinese saying)*

*--------- "Market and property are the crucial attribute for the subisidiarity,--------
real charity and social rules."
(Rev. Robert Sirico)*

*––––––––-"A society, where the individual effort to generate as much values as possible –––––
is replaced by the all-knowing tutor state, becomes soon a pauperized society of spongers."
(Nils Karleby)*[1]

*–––––-„The statesman who would attempt to direct private people in what manner –––––
they ought to employ their capitals, would... assume an authority, which could safely be trusted to no council and senate whatever, and which nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."
(Adam Smith)*[2]

*––––––"The relying on solidarity, love or social spirit as a mechanism –––––
for social co-ordination can be applied only in small open societies; this feeling loses as soon as the growing society dimensions start to separate the individuals form each other."*

(F. A. Hayek, [1944] 2001)

1 Rojas (2001), p. 15.
2 Hayek ([1944] 2001), p. 62.

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Introduction

The social system in Slovakia, as well as, more or less, the social systems in other countries, is one of the crucial sources of important ethical, economic and social problems. We agree with Nils Karleby's, quotation that *„A society, where the individual effort to generate as much values as possible is replaced by the all-knowing tutor state, becomes soon a pauperized society of spongers.“*[3]

Also in Slovakia, there persists the long-term impact of such system distortions as the „culture of dependency“ on social benefits and other ways of the government „support“ of an important part of the population, the passivity of many people and their relying on others (mainly on the government) and low weigh of voluntary solidarity and private activities (not only) in the social sphere. Another aftermath of the system distortions is related thereto: high costs of the social system sustainment. These costs cause significant financial burden for the economic entities by the mean of tax and, first of all, social contributions; they restrict the employment incentives (for both employers and employees) and thereby constitute a significant obstacle for the business development and solution of unemployment, mainly the long-term unemployment.

It is just the long-term unemployment and, most of all, the poverty, which are the most visible part of the system problems in social affairs. They both not only make unstable the financial situation of the people, but also impair their psychic integrity and the vitality in general. Often, this leads toward asocial behavior of these people, which threaten the others, many times even with criminal acts[4].

In Slovakia, the long-term unemployment problem remains significant despite the achieved gradual reduction of the total rate of unemployment. The percentage of long-term unemployed people in Slovakia is the highest from among all OECD countries, when comparing both the ratio of long-term unemployed persons to all the people in economically active age as well as their ratio to the total number of unemployed persons (more than 50% of them are the long-term unemployed). The persons who are unemployed more than two years and poor constitute specific problem, although currently with no significant share in the population. They are concentrated mainly in Roma settlements.

During the last two years, the Slovak Government has implemented measures in social policy, which meant also unquestionable benefits. For example, the social trap[5] was reduced (by the ceiling of total benefit for the family) and certain pressure was generated on the activity of the welfare benefit recipients. However, the large and highly set level of mandatory social solidarity and its aftermaths (mainly the excessive burden on business entities, consisting of high social contributions and suppressed voluntary solidarity) remained (almost) unchanged. For example, large financial benefits without counter-value demand remained unchanged; moreover to that, some of these benefits are universal (e.g. the child allowance). Various benefits are paid in cash; this often does not mean any solution to the poor person's problem of income lack. This confirms that the government does not carry out systematic

3 Rojas (2001), p. 15.

4 The riots in France during the fall in 2005 were an example of this affirmation. We are convinced that, among other causes, the combination of too generous French social system and significant percentage of (relatively poor) immigrants from Arabic and African countries triggered that violence.

5 Social trap (e.g. unemployment trap or poverty trap) means situation, when there are more incentives to remain (passive) in the social system than to become employed or active in other manner. Most frequently, the difference between the income in the social system and relatively comparable earning in the labor market are compared. For simplification purposes, e.g., the average income within the social system is compared with the minimum wage.

welfare reform with emphasis on long term and change of concept toward target-addressed social policy aimed to those who objectively need it.

Our goal is to introduce welfare reform with such emphasis to the common public. We attempt to come with **solution of system distortions** in order to **contribute** in synergetic manner, throughout solutions for milestones (such as reduction of long-term unemployment), **to the poverty reduction** and protection against it for those who really cannot take care of themselves and their families (see Chapter 4 for more details). With regard to the final perspective, we find only the emphasis on poverty issues as acceptable and legitimate for the social policy.

This publication introduces, first of all, our concept for the solution of the long-term distortions enduring in the social system. Therefore, we differentiate between the long-term perspective of achieving the desirable goal in the future and the milestones whose achieving might help to achieve the goal.

The welfare reform draft given in *Chapter 4* is based on the following subsequent and mutually interconnected cornerstones:

- value framework of the reform consisting in balance between market and ethics;
- definition of the government role in the society as the base for determination of level of mandatory social solidarity (Section 1.1);
- fundamental principles in social affairs (Section 1.2);
- negative trends and distortions, which affected and affect in long term the definition of social policy worldwide, especially in European Union (Section 2.1);
- systematic problems and distortions of social system in Slovakia (Section 2.2);
- examples of reform steps in Slovakia (Section 3.1) and abroad, e.g. in New Zealand and some U.S. states (Wisconsin, New York, Oregon and Colorado) – see Section 3.2.

The research trip of Peter Gonda and Michal Novota to the U.S. in 2005, which was aimed to learn about successful welfare reforms, mainly in Wisconsin and Colorado, contributed to the outcome of this publication significantly. We would like to express our gratitude to our hosts – Mr. Jason Turner, Mr. Dick Wulf and Mrs. Jean Wulf, Ms. Maija Schiedel and many other employees of El Paso County Department of Human Services in Colorado Springs as well as to Mr. Bill Baker for the inter-mediation.

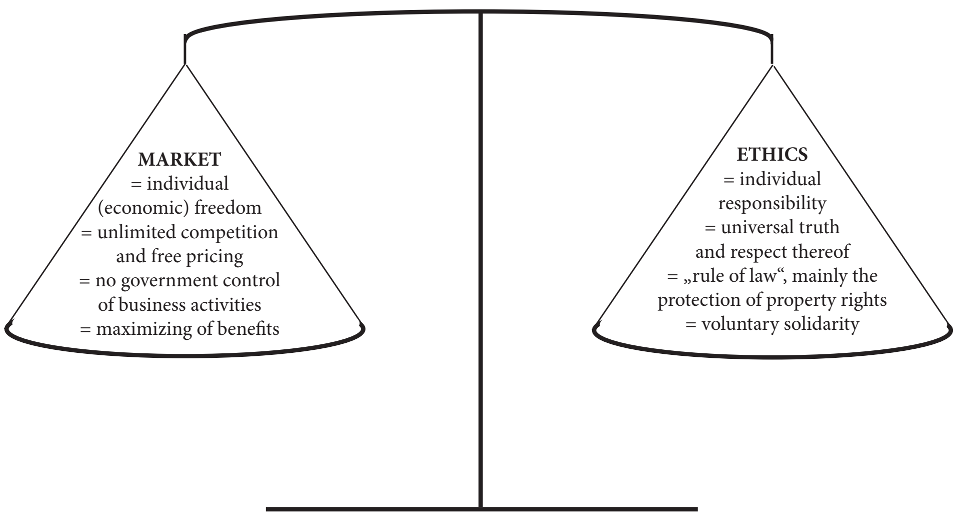
Our gratitude belongs also to all those who made comments and consultations with whom helped us to improve the text hereof. At last, but not at least, we thank our families for the understanding they gave us during the writing of this publication.

1. Conceptual Basis

The main conceptual bases hereof are the **principles of classical liberal economics and conservatism**. Therefore, the text hereof, including the proposed solutions of the main problems in social sphere in Slovakia, is based on two pillars: **market** as the base of classical (economic) liberalism **and ethics** as the base of conservatism. Worldwide renowned economists, as well as many philosophers[6], and we believe that free market and ethics are compatible, complementary and can balance each other. A degree, to which this really happens in the society, depends on the resulting effect of the individual human decisions. However, we consider the equilibrium of market and ethics (as shown in *Diagram 1*), or practical status as close as possible to this equilibrium, to be crucial condition for a successful community in long term: in both economic and non-economic aspects.

Diagram 1

Equilibrium of Market and Ethics



Source: Gonda (2005a), authors.

We have followed from the classical economic liberalism (developed mainly by Adam Smith and Alexis de Tocqueville) and conservatism (mainly in accordance with the heritage of Edmund Burke), which similarly (although not identically) emphasize the following:

1. human individuality with personal freedom and market with its invisible hand, with spontaneous order and voluntary relations[7] as well as
2. human imperfection and restrictions and the risks arising thereof in case of power concentration.

This requires, (also) for the purposes of welfare reform in Slovakia, the value-based limits, mainly the limits of individual freedom and freedom of choice. Since we honor the traditions and evolutionary development, we find as their best guarantees the following:

- Christian faith, mainly The Ten Commandments and another generally accepted social rules in public;

6 For example, in the work of Adam Smith (http://www.lucidcafe.com/library/96jun/smith.html#books), Milton Friedman (http://www.ideachannel.com/Friedman.htm, http://www-hoover.stanford.edu/bios/friedman.html), Friedrich Augustus von Hayek (http://cepa.newschool.edu/het/profiles/hayek.htm), Michael Novak (http://www.aei.org/scholars/scholarID.44,filter.all/scholar.asp) and Charles Murray. (http://www.aei.org/scholars/scholarID.43/scholar.asp).

7 For example, Smith ([1776] 1993) and Hayek ([1944] 2001).

- legislative rules ("rule of law"), aimed mainly to the protection of life and property (property rights);[8]
- limited government.[9]

1.1 Government Role in Society Based on Market Economy[10]

The interconnection between the most largely defined conceptual basis and pillars of the society (market and ethics) and the principles of social sphere (to be described hereunder) is just the **limited government**, its theoretical framework definition as well as the specification of practical execution of its tasks.

Our determination of the government tasks in the society is based on the ideas of "spiritual father" of the classical liberal economics, Adam Smith, conservative philosopher Roger Scruton and the laureates of the Nobel Prize in Economics James M. Buchanan and Ronald Coase. In simplified manner, their following congruence shall apply: while „searching" the government tasks, such activities are determined, whose performance and funding are not included in the scope of interest of private entities, however, there is, for some reasons, requirements for them in the society.

For instance, Smith mentioned, that the government or another central power shall fulfill the following three tasks:[11]

1. to protect the people in the ruled society against violence and invasion of aggressors other societies (currently concept of *national defense*);
2. to protect each member of the society against injustice and oppression of others and the obligation of establishing exact rules for justice implementation (currently *national security and legislation*);
3. to implement and maintain certain public institutions, which can be object of neither individual nor small group of individuals since the benefits cannot cover the costs of such individual or small group, but society gains some benefit anyway.

The first two or three tasks of the government (*see the footnote 11*) are unquestionable in case of existence of human community within a territorial unit with autonomous behavior with regard to its external environment (mainly in a state). Also more than two-hundred-year experience proved these tasks. We define them as the "limited government in the strict sense of the term". An example of such successful minimum (limited) government was in England in 19th century.

Roger Scruton used different wording to define the limited government: *„it is a sovereign execution of power restricted to the areas of protection of undeniable rights and freedoms, private property, rule of law, justice, order and security both in- and outwards*" (Scruton, 1999).
James Buchanan and Ronald Coase used different methodology to define the limited government. Both of them call attention to the fact that it is possible to define in advance neither specific activi-

8 Strictly in accordance with principles of traditional conservatism, the order should be vice versa. For instance, Paul Elmer More wrote in 1915, that *„for civilized human, the property rights are more important than the right to life*" adding that *„nearly everything what makes our life more important than that of animals is related to our ownership ...*" (Nisbet, 1993, pp. 70-71). Moreover, in 1793, Edmund Burke wrote that "*just the disrespect to the property and the fact, that some alleged virtues of the state are put against the ownership principles, are the causes leading toward all other evils that destroyed France and threw the entire Europe into an imminent danger*". See Nisbet (1993), pp. 70-71.

9 See, for instance, Gonda (2005a).

10 In this section, we introduce just framework and basic characteristics showing the government role in the society.

11 Adam Smith has defined three government tasks. However, the second task is de facto ensured by the mean of two functions in praxis: legislation (including the courts) and security (see Smith [1776] 1993).

ties, which could be defined as public goods nor any criteria or arguments defining the government tasks.[12] They affirm that only market-based activities are natural and only gradually and by the mean of evolution it is possible to prove that the government might either carry out or finance some of them. Thus they refute one of the key arguments (e.g. of Samuelson and Musgraves)[13], that so-called market failures constitute an argument for government interventions in the economy.

James Buchanan, as the main representative of public choice theory, argued in favor of limited government on the base of decisions of the governments (or other state representatives), arising from subjective preferences of the decisive voters' demand. He mentions that *"...in democratic society based on the majority choice rule there is no restriction, which might preclude the qualified majority to change the private property into a public one*" (Hampl, 2001).

Ronald Coase defines in similarly evolutionary manner and ex post the reasons of creation of the government tasks in his concept of "lower transaction costs"[14]. He states as follows: *„the lower will be the transaction costs for the making and enforcement of agreement and exchange, the sooner they will be based on market rules. The more simple will be defined and enforced the property rights, the lesser of non-market transactions shall occur spontaneously.*" He mentions defense as the public goods historically developed on the base of comparison of transaction costs[15] for the individuals. The defense of an individual or small group against other states would be for him/them very expensive and therefore, it developed historically into "public goods".

However, unlike the publicly administered defense, developed naturally on the based of high transaction costs, he defines the public social security as artificial public goods (developed "only" due to the fact that both people and politicians do not like the market outcome related to this issue, including the risk).

As a consequence thereof, and accepting the third government task defined by Adam Smith (carried out in several forms in praxis), the range of government functions can be increased as follows: for instance, keeping of the price stability or country's foreign policy. Within this context and in accordance with the third government task defined by Adam Smith, also other government functions arose in praxis, since no individuals and/or smaller groups of people are not interested in such tasks, however, for certain reasons, these tasks have importance for the life of community (state). There can be mentioned programs of poor people protection and those aimed toward those members of society, which cannot be considered as legally capable, including the children.[16] This is how we define the "limited government in the broader term".

In modern times, Hongkong was an example of successful country with limited government and the highest economic freedom for its residents (mainly before it passed under the Chinese possession again). Today, the closest countries to this concept in praxis are the countries with economic success, such as Ireland or New Zealand. The government size in terms of economics (measured as the ratio of public expenditure to GDP) is today in Ireland about 30% (see Section 3.2.1 for more details). However, the governments of the European „welfare states" administer and redistribute much more of

12 A definition of "public goods" in such conditional manner and throughout the evolutionary progress is in contradiction with the standard concepts, which are the most spread in economics textbooks (even for "pure" public goods) of Mussgraves and Paul Samuelson, who define (pure) public goods based on the criteria of „non-rivality in consumption" a „non-exclusion from the consumption".

13 For example, Samuelson-Nordhaus ([1989] 1992), pp. 327-8.

14 Aside the "transaction costs" concept, Coase uses also the „property right" concept to contradict successfully the argument of "externalities" used for justify the government interventions in the economy.

15 Besides that, an important criterion for (non-)inclusion among the government activities is the concept of "economies of scale" (Niskanen, 2005).

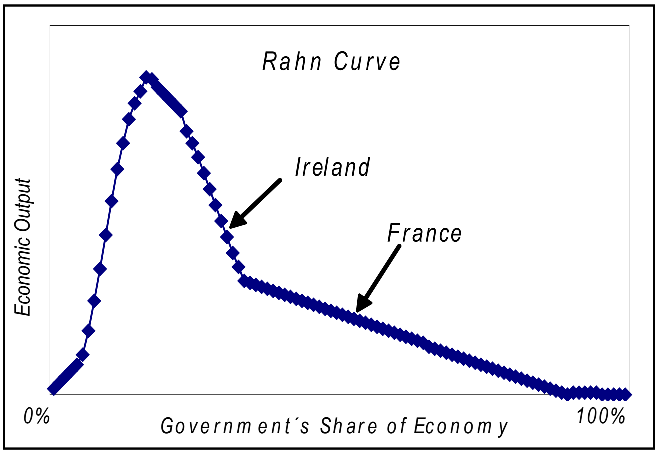
16 See Friedman-Friedman ([1982] 1992).

their economy (e.g. about 54% of GDP in France). At the same time, the performance of the economy, the living standard and the economic freedom in the latter states are lesser and grow more slowly[17].

For example, the comparison of Ireland and France confirms the validity of Rahn curve, thus the inversely proportional relation between the government size and economic output of the economic subjects in the country, however, with the curve maximum at the approximate level of 10% of GDP (*Chart 1*).

Chart1

Relation Between Government Size and Economic Output

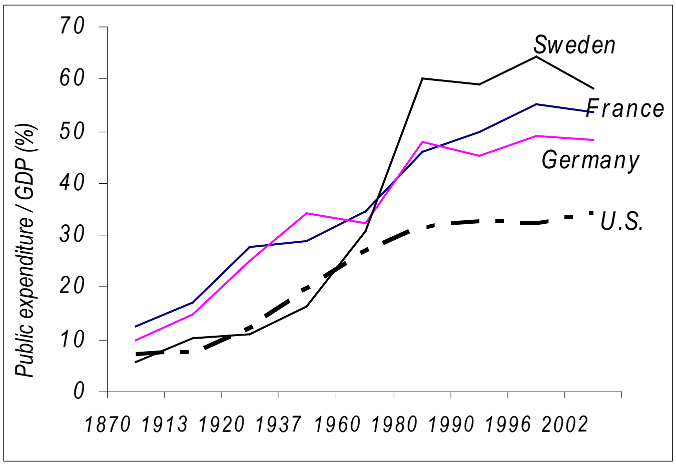


Source: Mitchell (2005), chart modified by authors.

The governments of the individual countries left behind just the limit of tithe and the limited government concept at the end of 19th century. Thence, the strongest impact was evident in Sweden as one of the freest economies at the end of 19th century. While in 1870, Swedish government redistributed only 6% of the sources generated in the country, today this figure increased to 60% approx. *(Chart 2)*.

Chart 2

Development of Ratio of Public Expenditure to GDP in Some Countries



Source: Tanzi (2005), chart by authors.

17 This corresponds to the outcome of Index of Economic Freedom, published yearly by Heritage Foundation (www.heritage.org).

We find the concept of limited government as the condition of long-term economic progress (thus also for the increase of population living standard) for Slovakia as well. However, also the following rule shall apply for the limited government: it has to create and keep rules related with the rights and obligations of individuals within the society, mainly it has to guarantee the protection of life and property. However, it should not carry out those things, which carry out almost all the governments: market regulation and replacement of voluntary activities of the citizens.

Therefore, it is crucial to define the specific functions, which the Government of the Slovak Republic should (and could) ensure and the level of (mandatory) social solidarity to be guaranteed. Step by step, the government should come to the performance of its basic functions "only", however at higher quality (than today) and in more effectively. Thus, under the limited government, we do not mean weak government, but such government, which performs restricted number of functions in as full-bodied manner as possible.

For Slovakia, such functions of limited government in the loose sense of the term can be determined as follows:

- legislation and justice (with emphasis on property right guarantee);
- foreign affairs;
- defense of the citizens;
- security of the citizens;
- subsistence level for those who really need the help;
- basic level of education of the children.

Within a long-term orientation and based on this unambiguous concept, it could be possible to determine with relatively high precision, whether some public expenditure (and how much) should exist or not and which expenditure does not constitute a government function and thus should be eliminated (see Chapter 4 for more details). Within social sphere, a government task is the assurance of subsistence level for those who really need the help.

1.2 Principles Applicable within Social Sphere

Principles related directly to the desirable status within the social system are following to the basic values and tasks of the government in society with market economy. They are mainly the following:

1. individual responsibility and self-sufficiency;
2. voluntary solidarity and private initiative;
3. subsidiarity and decentralization;
4. individual-targeted social solidarity at the basic level;
5. benefit entitlement is based on giving the counter-value ("nothing is for free")
6. competition of private providers[18]

18 For more details on principles under the points 5 and 6, see *Chapter 4.* hereunder.

Ad 1: Individual Responsibility and Self-Sufficiency

A free and responsible, self-sufficient individual and (his/her) family are the key assumptions of long-term economic and non-economic successful, working community. Market economy with unlimited (or as unlimited as possible) competition, with clear rules of "the game" and guarantee of property rights gives individuals their personal freedom and space for personal responsibility (a "state" protects this by the mean of laws). Whether and how they will use or not this space in praxis, depends on the individual life-related attitude of each of them.

The observance of the principle of personal responsibility requires, first of all, trust in their own abilities and readiness to bear the responsibility for their activities and for the financing of themselves and their families. This also means to aim the help for poor people in accordance with the concept of *„teaching them fishing instead of giving them fish"*[19] in order to improve their abilities and skills, which make them possible to escape from the poverty. Amartya Sen, a laureate of Nobel Prize for Economics in 1998, defined just the individual abilities and skills as *"the base for assessment of individual advantages (including the social ones) and prerequisite for enjoying the individual freedom"* (Bohatá, 1999).

Natural (and inevitable) differences among the people in the society, both financial and those related to the level of conscience on this freedom and utilization of its advantages are the consequence of different abilities and skills of the individuals. This fact, proven by many centuries, affirms the senselessness of the contemporary attempts of unification (so-called "harmonization") and/or reduction of the natural differences, targeted to averaging (see *Section 2.1* for more details).

The application of individual responsibility principle in praxis also press the people **to the self-help and** thereby **to their self-respect and self-confidence.** This **gives** them **greater independence, quality of life** and incentives for activity (also for social activity). So, this may result in their **increased togetherness and voluntary solidarity** with "weaker" citizens within their society.

Ad 2: Voluntary Solidarity and Private Initiative

Together with the self-help, both voluntary solidarity and natural grass roots originated initiative for help constitute another important principle within the social system. Like the voluntary exchange of goods between demand and supply characterizes the market, the voluntary solidarity characterizes the well functioning social relationship within the society. The natural institutions who were able to ensure such voluntary solidarity in the past (and are able to do so today as well) are, first of all, the family and other relatives, friends or the "neighborhood" and all forms of private providers of social services and other assistance – NGOs, church and other private and on voluntary basis working communities.

For example, Berger and Neuhaus, in their study To Empower People, defined the private organizations working in social system as the mediating structures. (Not only) they think that these organizations have irreplaceable position within the society as the institutions standing between the individual and his private life on one side and big public institutions on the other side. Volunteering and charity, mainly the Christian charity[20], spread successfully, for example, in the U.S. and in England from the

19 Chinese saying: "Giving a fish to the poor man, you will feed him for one day; teaching him the way of fishing, you will help him for his whole life."

20 For instance, Burke mentions the Christian charity as fully sufficient and complete alternative of government programs for assistance to poor people Nisbet ([1986] 1993).

"Poor Laws" era.[21] For example, the extent of private donation in the U.S. corresponds to more than 2% of the entire GDP and the share of individuals in the donation is about 80% (Strečanský, 2000).

It is not only the experience of these two countries, which confirms that private institutions are much more efficient than public institutions. At substantially lower costs, they are able to provide real help to an individual in his greatest destitution. They find their way to such an individual much quicker. This is because they emphasize his social and psychical transformation instead of keeping him passive within the social system. For private institutions, the individualized attitude is obvious and the paperwork level is lower than in public institutions. However, today they suffer more and more the „strangulating embrace" of the governments (see Section 2.1.2 for more details).

Ad 3: Subsidiarity[22] and Decentralization

The principle of subsidiarity and decentralization overlaps both above-mentioned principles. This means that as low level as possible should ensure anything it is able to ensure. Friedrich August von Hayek said that in other words: *"The relying on solidarity, love or social spirit as a mechanism for social co-ordination can be applied only in small open societies; this feeling loses as soon as the growing society dimensions start to separate the individuals form each other."* (Hayek, [1944] 2001). An individual and his family are the cornerstones for the application (not only) of this rule in the society.

Once their self-help fails, an opportunity is given to private, charitable and other social-assistance institutions. And it is only after that – when all natural institutions (individual – family – charity) will fail – when the government[23] may, and we think, should fulfill. However, also in this case, the rule of priority to act for lower levels of the „chain" shall apply: municipalities at first, then regional governments and only at last the central government. The only exceptions are the powers in such areas as the creation of legislation and inspection and enforcement of the law observance; all this shall ensure primarily the central government.

Therefore, the decentralization, i.e. the correction of the deformed centralization status (status of dominant position of central authorities within government sector and with regard to the decision-making and funding), is the prerequisite of well working subsidiarity. However, the public sector decentralization is not self-redeeming. For example, in conditions of Slovakia, the regional administration is subject to lesser public control than the central government; however, this is the aftermath of wrong regional division of the country. Despite of all, generally shall apply that the decentralized decisions are controllable more easily, also by the voters. Therefore, they are supposed to be cheaper and more efficient.

Ad 4: Individual-Targeted Social Solidarity at the Basic Level

Any government intervention in social system should guarantee the basic standard of living for the people in destitution (subsistence) in accordance with the government tasks in the society (described in the Section 1.1 hereof). We define the subsistence (existential minimum) a [24] clothing and shelter. This is the acceptable limit of the government-enforced and from "public sources" (taxes and social

21 See, for instance, Bush – Horn (2003), p. 5.

22 The subsidiarity principle understood as interpreted in the natural law and Roman-Catholic social doctrine (see Sirico 1997, p. 549), not in the distorted concept as defined in EU (documents).

23 We use the term of "government" in the looser sense, identical with the term of "general government". See its definition in *Diagram 5* of the *Annex*.

24 The term "appropriate" means indispensable for life.

contributions)[25] funded social solidarity. However, this solidarity shall be more individual-targeted than the proposals for conditions of Slovakia as given in the Section 4.1).

On the contrary, a person without income and asset sources for assurance of these basic vital needs (subsistence) is really poor.[26] Nobody who, although having relatively low wage or social benefit, owns a house or even a car, is really poor.[27] Nor a human who has relatively lower income than the median income of his country (this is claimed to be so-called relative poverty in EU) [28].

Therefore, and in accordance with this principle, the government assistance should be aimed only to the poor people, according to strictly assessed and proven and provable individual and/or family needs. This principle can be considered the only acceptable mandate for public social policy. Therefore, it is the base of the entire text hereof, including the measures for the proposed welfare reform in Slovakia. It is the antipole of universality in the social system.

We find the universality as non-systematic element and not efficient enough; it also squanders the sources up to certain degree (mostly due to no differentiation of needs and thus, guarantee of payment made from taxpayers' money to all, including the people with higher incomes).[29] The universality of the claim for benefit from public sources increases the demand thereof and, subsequently, the expenditure amount based thereon. This expenditure may exceed costs for mean-test in targeted system. The key distortion of the universality in public (incl. social) system consists in depraved expectations and relying on the government. Thus it causes the increase of the "put out and filled palms" phenomenon. This contributes to the strengthening of the "culture of dependency" and passivity of considerable part of the population. This would be contradictory to the above-mentioned natural principles, including the individual-targeting principle on the basic level.

25 We use the habitual term of "public sources" understanding that their origin is in private sector; i.e., they are always private sources only. However, after their mandatory acquisition from the people, they are administered and reallocated by the government (general government).

26 See Gonda-Dostál (2004) and Dostál (2005).

27 Relativity and exaggeration of the poverty rate can be documented by the example of the U.S., where the inquiries prove that from among those, who are officially reported as poor, nearly half of them (46% approx. in 2003) own a house, nearly three quarter if them own a car and almost all own a color TV set and refrigerator (Rector, 2004)

28 EU defines the relative poverty as a percentage of the population with income lower than the 60% of the median value within the society. We think, this is absolutely irrelevant with regard to the real poverty. That figure shows only the inequality rate in income distribution throughout the country. Considerable income differences must not mean necessarily that the country has big percentage of poor people. The poverty itself should not be confused with social inequality. Income and property differences among the people are obvious and their rectification is not a government task. Most of the crucial problems within the social affairs are related just with the confusion of real poverty with lower income of part of the population.

29 An example for this are the child allowances, payable and paid to all parents, at equal amount, throughout Slovakia. They are similarly universal in another 14 OECD countries (e.g. in Austria, Denmark and others), while in 11 OECD countries, the child allowances were transformed into individual-targeted poor parents (e.g. in Australia, Italy etc.). For more details, see *Plošná..., 2005.*

2. Distortions in Praxis

2.1 Distortions of Social Systems Worldwide

The governments worldwide turned away (some of them more, others less) significantly from the natural principles for social affairs. During the past century, the natural principles in social affairs underwent a lot of criticism and lack of confidence. Considered as "outdated and not flexible", they were replaced by new "mass and industrialized" citizen, who arose from the dust of dishonored tradition and human nature.

Today, most of the governments give priority to their goals compatible with such short-term aspects (unlike the goals desirable in long term as defined on the example of Slovakia in Chapter 4) as the intention to gain political advantage during the election periods. Mostly, the governments attempt to assure many goals simultaneously, going often behind those, which assurance they should guarantee of. Such attempts of the government as the reduction, or even rectification of the income differences within the society (in accordance with the concept of so-called relative poverty) or making equal the conditions for the people based on other differences (e.g. sexual) belong among those short-term and politically fashionable goals. Also the attempts of safeguarding of so-called "economical safety and social securities" belong among such pseudogoals, as well as the attempts related to political acceptance of economic reforms and elimination of social risks and so-called social exclusions.

The disagreement on bases and goals within social affairs can be defined as interference with the equilibrium among the government, society, communities and citizens. Therefore, we understand under the term of "deformed praxis" in social affairs the challenging and giving up of natural social and economic roles, which should play (under optimal conditions) these subjects.

Also in historical context, the key deformations can be introduced by the mean of negative trends of the social policy from the middle of 19th century, mainly in relation with the increase of "welfare state"[30] and their heritage, which deepened the substantial deformations in social affairs.

2.1.1. Negative Trends in Social Affairs from 19th Century

We mention the following negative trends in social affairs, which affected and still affect the social policies worldwide and mainly in Europe:

1. Creation and increase of mandatory insurance schemes;
2. Growth of government redistribution and welfare state expansion and decline;
3. European Social Model.

30 The "*welfare state*" term appeared for the first time in the work of archbishop William Temple called "*Citizen and Churchmen*", written in 1941. He used this term to identify the state, which provided to the people in destitution (i.e. handicapped, poor, old etc.) material care by the mean of legal and administrative means.

Ad 1: Creation and Increase of Mandatory Insurance Schemes

In the second half of 19th century, the insurance institute appeared based mainly on human desire to ensure the income for dignified standard of life in case of unpredictable event endangering the life or property. Demand for insurance of such life risks as unemployment, disability, disease or the old age (although this is predictable event) left its response in the offer of private insurance companies. Therefore, voluntary choice of the client based on the calculation regarding the income, consumption, saved money and the eventual costs related with the event subject to the insurance, determined the extent and nature of the insurance.

However, subsequently was created so-called social insurance, whose purpose was to protect collectively the people against the risk (of poverty) and guarantee the minimum social standard[31]. For the first time, this appeared in Bismarck Germany. The "Iron Chancellor", while implementing the mandatory insurance of the employees[32] in 1882, 1884 and 1889, pursued the goal to weaken the strengthening social democracy and avoid the class struggle. He succeeded to manipulate the government into the role of paternalistic tutor, who separates its citizens from the voluntary insurance schemes, hands over their individual responsibility and generates its claim for their loyalty. The remaining European countries followed the German pattern soon.

The Anglo-saxon countries opposed this trend for the longest time. The mandatory social insurance in the U.S., where the Supreme Court opposed the effort to introduce the mandatory insurance system for a long time, has been implemented for lower and middle class as late as in 1935 (within New Deal scheme), when the resistance of Supreme Court judges was broken due to devastating impact of the economic crisis and due to the nominations for new Supreme Court judges of the president F. D. Roosevelt.

Table 1

Summary of Creation of Social „Insurance" in Selected Countries

Insurance type / **Country**	**Accident**		**Sickness**		**Old age**		**Unemployment**	
	volunt.	mand.	volunt.	mand.	volunt.	mand.	volunt.	mand.
Belgium	1903		1894	1944	1900	1924	1907	1944
Denmark	1898	1916	1892	1933		1891	1907	
Finland		1895		1963		1937	1917	
France	1898	1946	1898	1930	1895	1910	1905	1914
The Netherlands		1901		1913		1913	1916	1949
Germany		1884		1883		1889		1927
Norway		1894		1909		1936	1906	1938
Austria		1887		1888		1927		1920
Sweden	1901	1916	1891			1913	1934	
Switzerland		1911	1911			1946	1924	
Italy		1898	1886	1928	1898	1919		1919
U.K.	1906	1946		1911		1908		1911
Australia	1902		1945		1909		1945	
Canada	1930		1971		1927		1940	
New Zealand a	1900		1938		1898		1938	
U.S.	1930				1935		1935	

Source: Večeřa (2001), p. 59.

31 The "collective logics" assumes that if all the people will be insured, we have the certainty that nobody will fall under certain (not too high) life standard. However, this "minimum social level" refuses risk as the main feature of the insurance.

32 This was mandatory health, accident, old-age and disability insurance.

Ad 2: Growth of Government Redistribution and Welfare State Expansion and Decline

The implementation of John M. Keynes' (British economist) macroeconomic theories in praxis brought more significant increase of the government (powers) and its intervention in economy. These theories advocated large government interventions in economy with the purpose of increase of the efficient purchasing power and number of jobs by the mean of public expenditure. Keynes recommended to the government to influence the savings and investments via low interest rates and public work schemes. In Scandinavia, the economist Karl G. Myrdal developed the „ideal" of welfare state, which became the primary agenda of social democrats, which won dominant position in Nordic countries between the world wars.

Several subsequent events made possible the mass support for the welfare state:

1. The first decades of the past century brought two World Wars and the Great Depression. These events unified the national communities in engagements of mutual "collective solidarity" as type of group identity strong enough to generate a movement "against" or "in favor" of collective goal. Such collective principle ("folkhemmet") gave the legitimacy, for example, to the Scandinavian welfare state;
2. centralization trends in the power execution within social affairs are related to the collective solidarity; such trends are based on ethnical community, the "volksgemeinschaft", which is concentrated around the state uniform institutions, where the individual rights are subordinated to the collective interests;
3. popularity of managerial and industrial ideals of "fordism" and "taylorism", representing the mass production, central planning; the center (management) hierarchic structure started to implement downward, in relation to the society. The growth limits for social schemes ceased to be defined by the individual interests in helping to the needed individual and started to depend on virtual limits of social (collective) contract of the citizens.[33]

After World War II, the massive rediditributing and compensating schemes "boomed" for two decades. This was tied closely with progressive taxation of the citizens, claim pseudologics related to social rights without support in sources and counter-value and (egalitarian) social citizenship.[34] After World War II, the ratio of social public expenditure vs. GDP increased, when compared with the pre-war period. The British labourist experiment of Lord Beveridge and Swedish "maximalist model" of welfare state became the patterns believed to be followed. Removal of the existing diversity became the goal. Welfare state was understood as legitimate from-cradle-to-grave tutoring institution.

The intellectual mood of the sixties helped to spread the illusion that the poverty is not an individual's failure and it has no relation to his personal effort and qualification. On the contrary, consensus prevailed that poverty is failure of the society and government is the only one who may rectify it.[35] This was the spirit of massive package of schemes of the U.S. president L. B. Johnson called *Great Society* and *War on Poverty*, which has reallocated US$ 8.3 trillion from 1965 in social schemes, health insur-

33 The very expensive scheme of *New Deal* developed by the U.S. president F. D. Roosevelt fits well to the hue of that time. It was example of social engineers' response to the impacts of the Great Depression. Beside the implementation of the above-mentioned mandatory social insurance, it meant large (however efficient for only short time) public works and social benefits to single mothers, widows and children.

34 We do not want to legitimize both of these terms, however, we find it necessary to emphasize, that they are based on the work of T. H. Marshall called *Citizenship and Social Class*. According to Marshall, the modern citizenship developed from the democratization during the last three centuries. In 18th century, the cornerstone of the legal enactment of civic rights occurred, and the political rights surged in 19th century. Marshall deems the consolidation of social citizenship in 20th century as the culmination of the democratic ideals. For more details see Castles – Pierson (2000), p. 32 and Kabele (2003), p. 2.

35 See Murray (1984), p. 29.

ance for poor and old people and other structural and compensatory measures. An underclass of frustrated, social benefit-addict citizens closed in the long-term unemployment trap has been generated.

Hidden crisis of welfare state has burst out during the oil crises in 1973 and 1974. Due to lower economy outputs, the governments were unable to pay the increased costs related to claims based on the social schemes; these costs increased proportionally with higher number of unemployed and those addicted in long term. The danger appeared of long-term uncovered liabilities caused by aging of the post-war "baby-boom" generation, generosity of PAYG pension systems and the generous coverage of health care from public sources. Maintenance of welfare state became morally and financially hazardous issue. It caused and still keeps on causing significant pressures on funding of increasing claims for official system benefits; this also increases disproportionately taxes and social contributions.

Ad 3: European Social Model

Ethical and economical problems related with the (non)working social systems in Europe are deeper and deeper also due to European social integration. This should, by the mean of convergence, approximation and harmonization[36], come to a unified European social space, based on mandatory observance of so-called social rights and citizenship. The „diseases" of social systems are transferred from national to European level. European Social Model[37] is mentioned as the synthesis of shared values and attitudes in social policy, based from so-called social equality and strong position of the government in social affairs.

Thus, European Social Model preserves the deformed praxis in various EU countries, where the excessive social solidarity enforced by the government led to long-term problems in economic performance and life standard and to their remaining behind the U.S. and other dynamically increasing economies. Most of the EU countries face problems with high taxing, social contributions and public debts (also caused by too generous social systems). Moreover, Alan Greenspan identified too high protection standards of labor code as the cause of EU remaining behind the U.S.; this, together with excessive authority of trade unions, causes inflexibility of the labor market and decreases the labor productivity. Trends in economic and social integration pose risks for new EU Member States.

2.1.2. Heritage of Deformations in Praxis

After a brief summary of key negative trends in social affairs, we indicate the main deformations. The impacts of welfare state deformations can be, in simplified manner, divided into economical (pressure of increasing costs and low efficiency), political (loss of welfare state legitimacy), demographic (increase of costs related with the aging of population) and psychological (the addicts remain closed in the underclass trap and the culture of dependency is generated).

As far as the poverty and long-term unemployment problems concerns, it is more than justified to emphasize the following system deformations:

a) too large government role in social affairs (throughout public expenditure for social transfers, provision of services etc.) and its position as dominant (or monopolistic) provider of services in

36 Convergence means increasing similarity of social systems in Member States; approximation means the introduction of common minimum standards and elimination of differences in social affairs among Member States. Harmonization is the active regulation by the mean of law harmonization, implemented within the limits of a Member State sovereignty.

37 For more details, see, for example, Novota (2005a).

social affairs, which causes, among other things, also significant relying of individuals in government and generates the vicious circle of "culture of dependency" without achieving of economical self-sufficiency of individuals and families;

b) disproportionate growth of social public expenditure at relatively low economy growth, while in most of the European countries and the U.S. the annual growth of the real GDP or GNP[38] oscillates between 1 and 4% and requires high administrative costs (and this preserves the permanently non-efficient social public expenditure) and considerable funding sources;

Table 2

Ratio of Social Expenditure to GDP in Some Countries (%)

Country	**1985**		**1990**		**1995**		**2001**	
	public	private	public	private	public	private	public	private
Australia	13.5	-	14.2	-	17.8	3.9	18.0	4.9
Denmark	27.9	0.4	29.3	1.0	32.4	1.1	29.2	1.3
France	26.6	-	26.6	1.6	29.2	1.8	28.5	2.0
The Netherlands	27.3	2.9	27.6	3.8	25.6	4.6	21.8	6.2
Germany	23.6	2.4	22.8	2.5	27.5	2.6	27.4	2.4
Ireland	22.1	1.4	18.6	1.4	19.4	1.6	13.8	0.4
Korea	-	-	3.1	-	3.6	3.2	6.1	4.4
New Zealand	18.1	0.1	21.9	0.2	18.9	0.5	18.5	0.5
Norway	19.1	0.9	24.7	1.9	26.0	1.7	23.9	2.1
Slovakia	-	-	-	0.0	19.2	0.5	17.9	0.4
Sweden	30.0	1.2	30.8	1.3	33.0	2.9	28.9	3.5
Switzerland	15.1	3.1	17.9	1.5	23.9	1.9	26.4	1.9
U.K.	21.1	3.2	19.5	2.9	23.0	3.7	21.8	4.4
U.S.	13.0	6.3	13.4	7.5	15.5	8.2	14.8	10.3
EU 15	22.9	-	23.4	-	25.6	-	24.0	-

Source: See OECD (2004a) for social public expenditure and estimation of Adem – Ladaique (2005) for social private expenditure.

c) generously and largely conceived social solidarity enforced by the government (in form of social contributions, services and other public assistance), which pushes away the forms of voluntary solidarity; low share of social private expenditure in total social expenditure, oscillating in most of the European countries between 1 and 10% proves that, while the same share in the U.S. is about 41% approx.[39];

d) in advance guaranteed and paid social benefits based on so-called "social rights" and so-called "social citizenship" without any base in sources; moreover, these are universal and payable to anybody (not only to those really needed) without due counter-value. Child allowance paid universally is the example of such benefit. Attempts for keeping the guarantees of social rights push up the social expenditure quickly. Therefore, the guarantees are not reachable economically. This undermines significantly the legitimacy of welfare state and causes the growth of social tensions;

e) regulations of labor markets – existence of minimum wage, regulations for employers and safeguarding of employee "protection", limitation of working time and restriction of freedom of

38 Gross Domestic Product (GDP) represents, in terms of money, the amount of all produced assets within the economy without intermediate consumption. Gross national product (GNP), used more in the U.S., includes both GDP and net income and production factors (labor, land, capital) from/to abroad. Real GDP or GNP express their values with correction of inflation impacts.

39 Data from Adem - Ladaique (2005).

choice of employees, guaranteed powers for trade unions and exaggerated importance of "social dialog";

f) creation of new social rights related with "anti-discrimination" (equal wage for female and male, gender equality), "social exclusion" (of sexual minorities, youth etc.) or attempts of positive discrimination of the "socially excluded", causing the adverse effect as intended;

g) other supranational regulations and restrictions (e.g. limitations of free movement of labor force in some EU countries, "compensation" attempts for regional differences by the mean of structural policy etc.).

Such enduring long-term deformations of the public social systems lead to the following aftermaths:

- significant pressure on funding sources (converted into high tax and contributions burden on the people);
- higher unemployment rate, mainly the long-term unemployment rate and lower living standard in such countries (including many countries of Western Europe) than in more liberal countries (for example, see the comparison dwelling space per households in *Chart 8* in the Annex);
- numerous problems for private and voluntary actors (besides their direct exclusion by the government), for example:
  - low ability for self-help, personal responsibility and responsibility for own family;
  - introduction of practice typical for public institutions (e.g. the paperwork related to their activities) into private entities; crushing of voluntary private entities by the public sector and
  - lower efficiency of their activity.

Too much paperwork and other negative phenomena more habitual in general government become more and more a part of activities of private organizations working in social sphere. As early as in 1977, Berger and Neuhaus described such *government's strangulating embrace of the voluntary sector* in the study mentioned in *Section 1.2.* Today, this happens due to funding of their activities from public sources and expansion of various partnerships between public and private sectors.

Moreover, there is an additional strong financial and other influence of EU inside the European area. Relying of many voluntary institutions on government's and supranational sources often causes that they leave their original missions (at least by the mean of partial adaptations to the requirements of governments and/or supranational donors) and at least partially lose their independence while searching original solutions. Lower efficiency of their activity and increase of corruption in voluntary solidarity and philanthropy come as the consequences.

2.2 Long-Term Problems of Social System in Slovakia

While the Western democracies suffered long-term, gradual and more or less significant deviation from natural principles in social policy, the development in communist countries was far more devastating: it refused totally the natural principles (as defined in Section 1.2). Slovakia and the other countries with communist regimes during the second half of 20th century even today face not only the influence of Western type of welfare state, but still with the aftermaths also of the communist model of society, which was enforced during four decades.

2.2.1 Historic Bases of Current Problems in Slovakia

2.2.1.1 Heritage from Communism

The communist coups d'état after World War II, in addition to the establishing of political totality, persecution of political opponents and brutal infringement of human rights and civic freedoms, brought to the nations in Central and Eastern Europe also the liquidation of the market economy, introduction of planned economy, disrespect of private ownership and economic freedoms of the citizens. The "state" (read government) controlled and managed all areas of the society life, including the social affairs.

The communist ideology was based on refusal of capitalism and market economy. Under communist regime, planned economy substituted the free business and competition; "state ownership" substituted the private property. Within the planned economy framework, the full (officially 100-%) employment became the base of the social policy. The government guaranteed citizens the right to work, on the other hand, also the obligation to work existed. The communist rulers argued that the non-existence of unemployment is the proof of socialism superiority to capitalism. However, in reality the full employment was kept artificially, paying for it the price of overall low labor productivity, inefficiency of the entire system, averaging incomes and social overemployment related mostly to unskilled labor. There was neither labor market nor employment policy as understood in countries with market economy[40].

The government planned and determined both wages of employees and prices of goods. Thus, the government social policy was implemented also by the mean of centralized control of wages and prices. The government subsidized the prices of certain goods (e.g. food), services (e.g. transportation) and house-rent in order to keep them artificially at lower level. The wages did not express the real price on the labor market. They regarded the individual output only within minimum extent. The criteria were rather based on the notion of central planners related to the importance of the individual professions, preference of manual work to intellectual work and capacity of the national budget.

Child allowance was introduced in Czechoslovakia after the World War II. In 1948, national insurance was introduced in order to unify several types of social insurance existing already in pre-war Czechoslovakia. During the 1950s, government-funded system of social security replaced the social insurance system. This replaced the income based on salary during the old age, sick leave, disability, maternity etc. The system did not include unemployment insurance, since there was no unemployment. The system was centralized and under full control of the government. In addition, the system created illusion that the government provides citizens the social security „free of charge".
The communist model of society caused, as far as social affairs concerns, important system distortions, which endure more or less up to now:

a) total control of social policy by the government caused that the execution of social policy was completely nationalized and centralized; all alternative, first of all, the natural and voluntary forms of social solidarity run by churches, charity and NGOs were liquidated or suppressed;

40 "The government institutions for manpower planning dealt only with planning and redistribution of manpower as well as the solutions for manpower recruiting to some branches of the domestic economy, which lacked employees. Marginally they have dealt with acquisition of substituting jobs and assistance for persons seeking for such job, provided this situation was caused by restructuring (organizational changes)." See Tomeš (2004), p. 154.

b) the status of dependency on social incomes provided by the government led to the understanding that the social incomes (in form of social benefits, but also the prices of goods and services subsidized by the government) ceased to be a substitute or complement to work incomes during the period of destitution. They began to be understood as relevant, legitimate and even claimable part of individual's income as far as the amount of money concerns;
c) the loss of individual responsibility for own situation and relying on the government, perceived generally as the entity whose obligation is to take care of the people and who is responsible for their standard of life more than themselves, led to an environment with incentive loss, with only a marginal relationship between the individual's effort and output on one hand and his income on the other hand; this caused passivity;
d) high redistribution rate via public sector created extremely expensive and non-efficient social system, which could work only within the economy based on the government commands, when the government had under control all economy sources; however, it became non-sustainable in market conditions;
e) artificially kept full employment was one of the reasons of economic inefficiency of the communist system; full employment represented a time bomb for the future, threatening with high unemployment.

2.2.1.2 Social Transformation during 1990s

The fall of communism caused large political, economic and social changes, which created the framework for changes in the system of social affairs. These changes were of less crucial nature than, for example, the economic transformation and they just responded to the economy changes and their impact on the population social status.

The government ceased to control the economy directly, plan the production, and define the prices and wages. In 1991, the price liberalization brought not only the free pricing for most of goods and services, but also eliminated the up-to-then direct subsidizing of food prices; during the socialism, this was the *de facto* tool of government's social policy[41]. Unemployment became the concomitant phenomenon of this economical development. The social overemployment from the socialist era converted into long-term unemployment, which "affected" the emerging market economies stronger than developed market economies.[42]

In that time, the welfare reform was conceived as set of measures in order to compensate the social impacts of the economic reforms. The mitigation of negative social impact of the economic reforms was perceived as the prerequisite for keeping of political acceptance for the economic reforms. Good example was the compensation of food price growth by the mean of the government's compensation benefit, which was paid to everybody since 1991; in 1992, its amount has increased, but it was paid only for pensioners and children.

After the separation, the Slovak system of social affairs developed towards the welfare state model. System of mandatory social insurance[43], which included both old-age and health insurances under

41 In 1990, the government subvention for food was 27 billion Czechoslovak Crones in Czechoslovakia. See Rys (2003), p. 33.

42 Long-term unemployment is not related only to the significant increase of number of unemployed people during relatively short period after the transition to market economy, to the inability of the economy in recession to generate new jobs and absorb the unemployment growth as well as the inability of institutions dealing with labor market policy, but mainly with the fact that the social overemployment mostly affected unskilled and under-skilled manpower; for these people, it results more difficult to find new job once they become unemployed.

43 In 1993, National insurance company was established; this has split in 1994 to Social Insurance Agency and General Health Insurance Company.

the administration of Social Insurance Agency (SIA). Also the mandatory unemployment insurance was introduced and thence administered by the mean of National Labor Office (NLO). SIA and NLO bodies were established on tripartite basis – government, associations of employers and trade unions delegated their representatives therein. Nominally, the creation of separate institutions for social affairs separated the financing of social insurance from the national budget – the insurance payment is financed from mandatory social contributions paid by employees, employers and freelancers, while it is the "government" who pays the social contributions for part of the insured people; in other words, they are paid from taxpayers' sources. Also social support (dedicated mainly to families with children) and social assistance (dedicated to people in material and social needs)[44] are paid from the taxes.

The government continues intervening significantly also in labor market: it enters in relations between employers and employees and it has its own labor market policy with regard to the job applicants. Legislation defined the minimum wage and the Labor Code stipulated in detailed manner the relations between employers and employees. Trade unions and the collective negotiation got strong position in determination of wages. The Employment Authorities, aside the unemployment insurance (labor market passive policy), implemented also the labor market active policy, i.e. measures in order to increase the employment, mainly by the mean of re-qualification training and promotion of creation of different types of jobs.

The following features were typical for the transformation of social affairs in 1990s:

a) social system reform responded to changes in economic system and, mainly at the beginning, the reform was made subsequently to these changes;
b) despite the declaratory emphasis on individual responsibility, still prevailed the attitude of paternalism and attempts to preserve the caring government;
c) the main changes of social system occurred more in institutional sector (creation of insurance funds separated from the national budget, new structure of the social policy system, decentralization of certain areas of social policy and their devolving to regional governments) than in the change of basic concept (transition from tutoring government towards natural principles in social affairs);
d) support of position of trade unions in the system of collective negotiation at enterprise, branch and national levels, which lead even to the establishment of tripartite at national level.

2.2.2 Definition and Reasons of Current Problems in Slovakia

The substantial long-term problems in social sphere and the distortion of its financing system in Slovakia are caused by long-term political, economical and social development during communism and the subsequent transition period as well as the external impacts, mainly from European Union (EU).[45]

They are related to one deep-rooted distortion: excessive role of the government in the economy and society, which is manifested not only in social affairs. It is reflected not only in the government's attitude to the solution of problems in individual segments of social sphere, but its aftermaths are also put highly in the value ranking of the population.

44 Material need means the situation, when the income of the citizen drops under certain minimum limit defined by law. Social need means the situation, when the citizen (mainly due to his high age or unfavorable health condition or handicap) is unable to ensure his basic life conditions nor with the help of his family.

45 Mainly the European Social Model, in the loose sense of the term, also the long-term distortions of social systems in European countries (see *Section 2.1 for more details*).

2.2.2.1 Substantial Long-Term Problems in Social Sphere in Slovakia

While defining the substantial long-term problems in social affairs, we find the base in the definition of basic tasks of the limited government in the society (*Section 1.1*) and the principle of individual-targeted social solidarity at basic level (*Section 1.2*). Therefore, as the substantial problems in social affairs should be considered those, which are related directly with the poverty, which is mostly connected with the long-term unemployment. Such substantial long-term problems of social affairs in terms of Slovakia are mainly the following:

a) dependency of significant portion of the population on social benefits and its related passivity;
b) low rate of voluntary solidarity and private activities in social sphere;
c) high and, for economy, retarding costs for the social system functioning.

These system distortions are the main poverty source and contribute significantly to the inability of many individuals to cope with the problem of long-term unemployment and the related poverty.

Ad a): Dependency on Social Benefits and Passivity

Dependence of many individuals and entire families on social benefits and their relying on the government's support is the aftermath of deep-rooted distortion in thinking of the people and system failures in the economic and social system running. The people adopted, during the communist regime, conviction that not themselves, but someone else, mainly the government, is responsible for their living standard. The loss of personal responsibility for their situation and the situation of their family as well as the culture of dependency as phenomena generated by the communist rule remain unchanged even after the transition of the economy into market terms.

The persisting paternalistic attitude to social affairs did not generate the convenient environment for this change. The income based on social benefits was, in certain cases, even higher than the working based income, what led not only to the social system abuses, but also to strengthening of the culture of dependency in considerable groups of population. The situation when the income based on social benefits provided without any counter-value was higher than the potential wage, caused the incentive loss for the unemployed people while seeking for job in order to solve their situation.

The **social comfort guaranteed by the government** and lacking the pressure on individual responsibility **led to passivity, relying on the government** and low ability to solve independently the own situation or to solve it with a support provided within the family. This had and has grave consequences mainly for the part of population, which was unable to adapt to new market terms and which is affected by long-term unemployment and the related features of poverty.

Therefore, this group, with increased share of unskilled or underskilled persons, consists the major problem among the unemployed and long-term unemployed people in Slovakia. These people often, due to long-term unemployment, have lost their labor habits or they even never acquired them since they became unemployed as soon as they finished the school. These people are not only long-term unemployed, but they also are hardly employable. In accordance with estimations based on statistical data on combination of long-term unemployment, basic level of education and too high or too low age, this group consists of 100,000 persons approximately (i.e. 2% of the whole population in Slovakia)[46].

46 One hundred thousand unemployed form the hard core, Trend. July, 7th, 2005.

In terms of quantity, the poverty (typically with lack of sources to ensure one hot meal per day, appropriate clothing and shelter) has not societal significance in Slovakia. However, the problem consists on the concentration of the most hardly amenable and employable citizens living in Roma settlements.

The mentioned problems concentrate significantly in Roma settlements, whose inhabitants are, more than others, long-term unemployed and poor. According to extensive social and demographic survey of Roma communities in 2003, approximately 50,000 inhabitants live in these settlements outside the towns and villages, in the settlements at the margin of the town of village there are 70,000 inhabitants and more than 30,000 other Roma live in concentrations within the towns and villages[47]. In total, they represent approximately 3% of the Slovak population. Organization for Economic Co-Operation and Development (OECD) estimated the Roma share on total unemployment to be one fifth and the unemployment rate in Roma settlement 90% approx. in 2002[48]. In some Roma settlements, the unemployment is nearly 100%.

Box 1
Ivan and Sylvia – A Standard Slovak Underclass Story
Ivan is 33 years old, Sylvia 32 and they have in total seven children. Sylvia is in fifth month of her gravidity. They live in a Roma settlement with 400 Roma inhabitants (100 men, 110 women and 190 children under 18). Together with the children, they dwell in two rooms and the kitchen works also as the living room. Ivan does not work 10 years already; Sylvia stopped to work when she became pregnant for the first time. Their oldest daughter, Iveta (15 years old), is sexually active. It is likely that she will become pregnant during the next year. Their oldest son, Peter, is 13 years old and it is likely he will become sexually active within one year. Ivan insists permanently that he wants to work and he will be not choosy. He knows manual works with shovel and 12 years ago he worked as bricklayer assistant. However, the same requirements and experiences have also the other 100 men in the settlement, but the mayor is able to help to only as few as twelve of them. When Ivan was 18, he received the draft notice; he simulated mental retardation and so he had not to be drafted. Now, this sin has avenged on him. Any potential employer has good reason to reject him. Ivan and Sylvia owe SKK 40,000 to an usurer plus SKK 8,000 for electric power. When Ivan was in the shop, he had to buy food for SKK 90. He bought cigarettes for SKK 50 and bread and paste for hungry children for the remaining amount. Does the benefit increase help to Ivan and Sylvia? No, it surely does not. The usurer will consume everything. Does the activation works help them? For SKK 1,500 they will remain passive and without feeling of responsibility as they were before, although Ivan is willing to work. But he will not be one of the selected twelve whatsoever. Resignation and passivity are ruling in the family.

Source: Baker-Hanšut (2004)

Ad b): Low Rate of Voluntary Solidarity

The widespread passivity and relying on the government are expressed not only in the personal responsibility loss in case of individuals for their situation, but also in low rate of voluntary forms of solidarity. In general, communist regime liquidated the natural, thus voluntary, expressions of solidarity. The government assumed the whole responsibility for the execution of all forms of social policy and did not accepted the activity of private entities in this area[49]. The feeling of personal responsibility for the own fate has

47 *Správa, 20*05.
48 OECD Economic Survey, Slovakia, June 2002
49 Trade unions and employers played certain roles in social policy, however, they could not be considered as independent due to their interconnection with the government and much less they could be considered as private entities.

been suppressed in case of most of the population; similarly was devastated their feeling of responsibility for others and the consciousness of personal obligation to help the people in destitution.

Although the change of rule and economic system enabled again the work of NGOs in private sector and the church charities, the general idea that it is the government who is responsible for the solution of social problems, endured and remains deep-rooted. Too large and widely conceived importance of the solidarity guaranteed and enforced by the government, together with heavy social contributions and tax burden, did not generate an environment favorable for the development of voluntary forms of solidarity. On the contrary, the **mandatory social solidarity enforced by the government crowding out the voluntary forms of solidarity and makes them just a kind of an appendix of the social policy implemented by public institutions**.

The government goes on "protecting" the citizens, by the mean of mandatory insurance schemes or various social benefits, against different social risks. This just strengthens the idea that the government's responsibility is primary and deprives the incentives for development of voluntary activities and donation for charities, which are still very undeveloped. This is affirmed also in the fact that the share of private donation on GDP in Slovakia is as small and 0.5% of GDP approx. and that the individuals' share on this donation is one third approximately; this gives a great difference to the U.S., for example (for more details, see *Section 1.2*)[50].

Ad c): High and, for Economy, Retarding Costs for the Social System Functioning

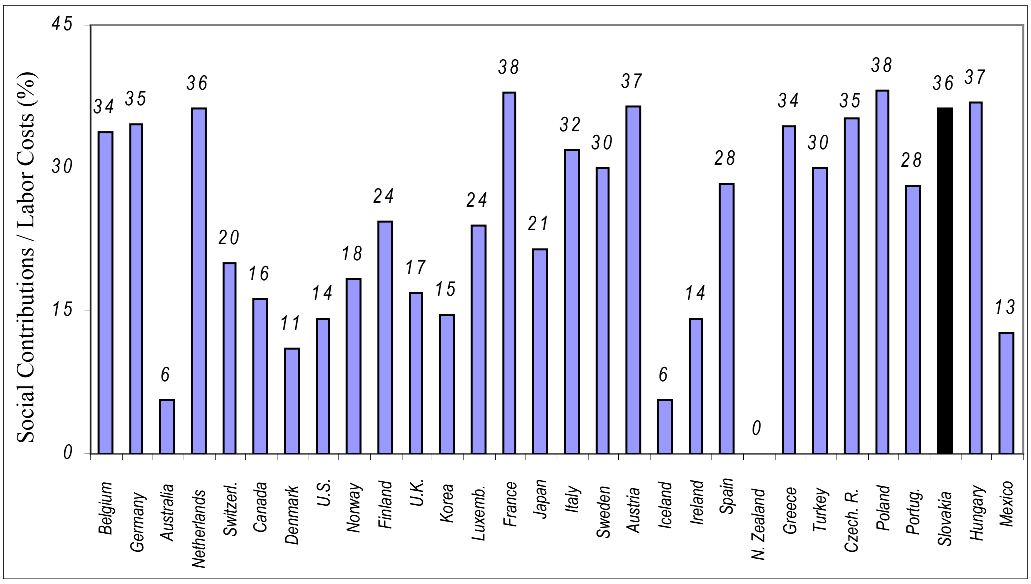
Systemic and long-term problem in social sphere of Slovakia is also the disproportionably high costs for its working. These costs are related with the mandatory quality of the individual sub-systems and they are caused by social system distortions, mainly due to excessive share of mandatory solidarity and too high mandatory social security contributions (see Section 2.2.2.2 for more details). Such setup of social affairs funding system invokes pressure on public funding and required large amounts of money.

Primarily, it is transferred into high social contributions burden, which represents as much as 36% of the average labor costs per employee. This index is one of the highest in OECD countries, right behind Poland, France, Austria and Hungary (*Chart 3*).

50 See Strečanský (2000).

Chart 3

Comparison of Social Contributions Burden in OECD Countries (2004)



Source: OECD (2004b), diagram by authors.

High rate of social contributions burden in Slovakia is **the essential obstacle** of creating new jobs and thereby **unemployment decrease.** The reason consists in the fact that high social contributions (described briefly in *Section 2.2.2.*2), together for personal income tax (PIT), are increasing the non-wage portio n of the labor costs. This causes that the employers loose incentives to employ, mainly those underqualified and non-qualified workers, thus, the people with lower income and **more long-term unemployed**. Maximum limit of income for payment of social contributions cause that the social contributions are mostly burden of labor cost at such jobs. It is because the employers are willing to employ the underqualified and non-qualified workers only at lower labor costs. Moreover, the applicants for such jobs loose motivation to become employees due to small difference between net wage (which is lower also due to higher social contributions) and income during no work periods.[51]

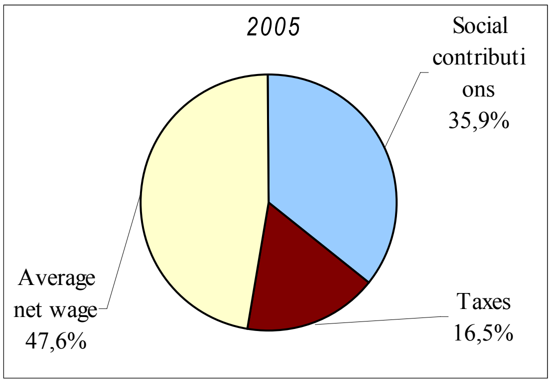
The international comparison within OECD countries affirms the proportional relation between the rate of social contributions (and tax) burden and the unemployment rate. Just such countries with highest share of social contributions on labor cost as Poland, France and Slovakia belong within OECD to the countries with the highest unemployment rates. On the other hand, the countries with the lowest social contributions burden, such as New Zealand, Iceland, Australia and Ireland have some of the lowest unemployment rates in OECD (compare Chart *3* and *9* in the Annex).

The average tax and social contributions burden of the per employee labor costs oscillates in Slovakia at the level higher than 52%. In 2005, this was even slightly higher (52.4%). For an average employee, in accordance with calculations of Association of Taxpayers of Slovakia and F. A. Hayek foundation, only less than 48% of his gross wage in 2005 remained (see Chart *4*) after the payment of all social contributions and taxes.

51 See, for example, Gonda (2005b).

Chart 4

Average Tax and Social Contributions Burden of Labor Costs



Source: Chren (2005)

Similarly expensive system will be, in case of increasing requirements (mainly with regard to the ageing of the population), more and more unsustainable. High rate of redistribution for social purposes restrains the overall economy performance, makes harder the creation of new jobs and strengthens the passivity within the society of people in destitution on one hand and those who might help by the mean of voluntary forms of the solidarity on the other hand.

2.2.2.2 Distortions of Social System in Slovakia

Mainly the enduring problems in social affairs, and in some cases, even increasing distortions of the social system, cause the long-term problems in social affairs. These are derived from the main system distortion, which is (not only in social affairs) consisting in excessive role of the government in the society. All problems are the manifestation of this role in different segments of the social affairs. At the same time, they represent a deviation from the desirable natural principles, which should be applied in social affairs (see *Section 1.2 for more details*). It is paradoxical that despite the application of these principles, mostly the government justifies its attempts to protect the population against the risk of poverty and unemployment; but in reality just these distortions are the main obstacle of the efficient solution of poverty and long-term unemployment problems.

On the other hand, remaining these distortions is caused also by the value ranking of the population, which is influenced by the heritage of communist rule as well as the insufficient reforms of the social system in the past. The politicians' carefulness during their elimination is the consequence.

The most important distortions of the Slovak system are mainly the following:

a) too large, generous and widely set role of government related to the guaranteed social solidarity;
b) high social contributions and other mandatory payments in social affairs;
c) cash benefits and positive social rights guaranteed in advance, provided universally and without requiring any counter-value;
d) prevailing of mandatory forms and public pillars in the system;
e) regulations on labor market;
f) strongly centralized system of social policy;
g) intricacy and non-transparency of the social system.

Ad a): Too Large, Generous and Widely Set Role of Government Related to the Guaranteed Social Solidarity

The social solidarity guaranteed by the government is set too generously and widely. This is shown in all segments of the social policy. Wide scale of different events is covered by the mean of mandatory social insurance: old age[52], disease, parenthood, handicap, accidents, and job loss, basically all the situations when the individual looses the job income. Child allowance is an example, since they are not targeted and they are paid to all families with children, including those, which are not in material destitution[53]. Thus, social support as a part of social policy is provided also to those people, which are not needed and have sufficient income. Despite of the recent changes, the help to the people in destitution has still more nursing than activating nature.

The social policy costs represent more than 30% of the total general government expenditure; in many cases, this is a mere redistribution without any legitimate justification, consisting in a help targeted to those, who are in destitution and needed for such help. The government, having such attitude, deviates significantly from the desirable status, in which it should guarantee the citizens just the minimum life standard.

Too large extent of the social solidarity enforced by the government has negative impact also on the individual responsibility of the people for their situation. It supports the passivity and marginalizes the voluntary forms of social solidarity as well as the activity of private entities in social affairs.

Ad b): High Social contributions and Other Mandatory Payments in Social Affairs

Too large extent of the solidarity enforced by the government and the expensive system of social policy cause high social contributions and tax burden on the population. The mandatory social contributions and other mandatory payments in social affairs[54] represent 47.8% of the tax base (most often of the gross wage) and nearly 36% of the total labor cost. Slovakia is one of the countries with highest rate of social contributions within OECD (see *Diagram 3*).

Table 3

Mandatory Social contributions before and after the Changes in Social System

	till December 31st, 2003				from January 1st, 2006			
	employee	employer	total	Self-employm.	employee	employer	total	Self-employm.
unemployment	1.00	2.75	3.75	3.00	1.00	1.00	2.00	
guarantee		0.25	0.25			0.25	0.25	
sickness	1.40	3.40	4.80	4.80	1.40	1.40	2.80	4.40

52 Within the consequence of execution of the pension reform, the people have the possibility to pay a part of the funds (9% of the assessment base) to private pension saving companies instead of public old-age "insurance" in Social Insurance Agency. However, the payments are also mandatory and they reduce in no way the social contributions burden.

53 The child allowance is paid universally for each child, in amount of SKK 540 per month. The child allowance share on the national budget expenditure in 2004 was SKK 6.8 billion.

54 This includes social insurance (health, old-age, unemployment, guarantee, accident and solidarity reserve fund) and health insurance and part of income from taxes and other revenues dedicated for social transfers (e.g. the government social support benefits).

pension	6.40	21.60	28.00	28.00			0.00	
old-age[a]					4.00	14.00	18.00	18.00
disability					3.00	3.00	6.00	6.00
solidarity reserve fund						4.75	4.75	4.75
health	4.00	10.00	14.00	14.00	4.00	10.00	14.00	14.00
Total	12.80	38.00	50.80	49.80	13.40	34.40	47.80	47.15
Difference					0.60	-3.60	-3.00	-2.65

Note: a – Mandatory social contributions for old-age pension show the example of an insured person who did not enter into the capitalizing pension saving. For the insured employee, who entered into the capitalizing pension saving, his employer pays 9% of the assessment base to the private pension administration fund and 5% only to the old-age insurance within SP. However, this has no impact on the total amount of insurance payments.
Source: Dostál-Gonda-Thomay (2003), SP, Ministry of Labor, Social Affairs and Family of the Slovak Republic, authors.

High social contributions increase disproportionately the non-wage portion of the labor cost for the employers and have negative effects on official employment. This causes the development of black labor market, when the people are being employed outside the formal labor contract, or, additionally to the formal labor contract, concluded for the minimum wage, the employee receives part of the remuneration in informal way from the employer. Simultaneously, the informal employment reduces the generation of sources based on social contributions. Together with the tax burden of labor, the social contributions are the greatest obstacle for the development of small and medium-sized enterprises and the jobs generation, thus it is a barrier precluding (mainly the long-term and unskilled manpower) unemployment reduction (see *Section 2.2.2.1* for more details).

The second government of Mikuláš Dzurinda stated in its Government Program Declarations dated in November 2002 the following: *"The policy targeted to decrease the public debt will generate, together with the reforms of the most important public spenders, space for reduction of social contributions and direct taxes."* The government saw the direct relationship between social contributions burden changes and unemployment reduction. Despite of this, neither this government nor its forerunners dared to implement the relevant reduction on social contributions (see *Table 3*). Only during the last year of its work, the government started to consider the reform of levies.

Ad c): Cash Benefits and Positive Social Rights Guaranteed in Advance, Provided Universally and without Requiring any Counter-Value

Great part of social policy in Slovakia is not individual-targeted. It is not aimed only to the assurance of basic standard of living for the people, who really need help and to protect them against the poverty, but its goals are much more ambitious. Thus, such policy has often the nature of social engineering. Many social benefits are paid without verification whether such payment is really necessary or not and most of the benefits are paid without requiring for any counter-value from their receivers.

This is significant with regard to the issue of social support of families with children, where the government made changes, which even made the system less individual-targeted. Child allowance is paid universally; no verification, whether the family really needs such support or not is made. This benefit is paid regardless the income and economic status of its addressee; the only title to pay it is the mere presence of the child in the family. However, this may hardly be deemed as legitimate reason for redistribution, if assessed from the point of view of limited government principles. This allowance is also paid for studying "children" older than 18, who are *de facto* adult people. The parents' decision to have children is not real disadvantage, which the government should compensate to the parents by the mean of redistribution of sources.

Also the parent allowance became less individual-targeted. This allowance is paid to the parents of children under 3 or 6 years old (the latter applies, if the child has a long-term health problems). In the past, this benefit served as a partial reimbursement of working-based income for those parents, who, due to the all-day care of small child ceased to work. However, this benefit is also payable universally today, i.e. also to those parents who are working.

On the other hand, the changes in the system of help to people in material need mean that at least part of the help (activation allowance) started to be bound to the recipient 's activity in form of either labor or training activities. Despite that, it is still the lesser part of the social benefit income of such person. In general, the mere fact of payment of any cash benefit without demanding any counter-value to people who are able to work should be considered as problem.

These distortions of social policy system increase dependency of individuals to social benefits, foster (not only) their paternalistic expectations and increase their passivity in detriment of the individual initiative and personal responsibility.

Ad d): Prevailing of Mandatory Forms and Public Pillars in the System

Mandatory forms dominate within funding of social sphere in Slovakia and the space for voluntary insurance is minimal. Only the unemployment insurance for self-employed is voluntary; however, for the employees and (employers) also this insurance is mandatory. The remaining forms of insurance social contributions (old-age, disability, sickness, guarantee and accident insurances and the solidarity reserve fund) are mandatory. Also the old-age insurance in private capitalizing pillar is mandatory[55]. Also the participation in complementary pension insurance is voluntary, however, this does not replace the mandatory pension insurance; the former is just additional to the latter[56]. In its Program Declarations of 2002, the government compromised to promote the strengthening of voluntary forms of pension saving and insurance, but in reality, the importance of mandatory insurance remained nearly unchanged (and within the pension system, it even increased). This constitutes the main obstacle for larger implementation of voluntary schemes in pension saving and insurance.

The fundamental problem of mandatory insurance is the following: it replaces the individual responsibility of the people in such situations, when each of themselves could and should assume the respon-

55 Although the up-to-date insured persons may decide whether they will remain in the PAYG system within Social Insurance Agency (1st pillar) or they opt for private capitalizing saving (2nd pillar), however, this does not affect the total amount of their insurance contributions. The only decision they make, is whether the employer will pay for them 9 % of their gross wage to Social Insurance Agency or to a private company. Even after they opt to participate in the 2nd pillar, the payment for pension saving remains mandatory all the same as the payment of old-age insurance.

56 Since the mandatory items of the pension insurance or insurance and saving represent as much as 28.75% of the gross wage, the incentive to participate also in voluntary pension schemes behind the mandatory insurance is significantly weak. See, for example, Gonda – Dostál (2004).

sibility for his future. This shall also apply for such situation of income loss, which are predictable in long-term (old age – pension insurance or mandatory capitalizing saving) and which one may prepare in long-term to (voluntary insurance, saving, investment). In case of short-term reimbursement of such income-loss situations as disease or unemployment, there would be no problem with letting the individuals to decide freely, whether they want to insure against such risks or not; if yes, up to which amount they would like to do so.

The implemented changes strengthened significantly the merit principle within the social insurance system. This means that entitlements of the insured person against the insurance system depend on the paid amount of contributions. The merit principle is appropriate in the voluntary insurance system, but it has no logical justification within mandatory insurance. The merit principle in mandatory insurance means that the insured persons with higher income are forced to pay higher contributions with the reasoning that they will be entitled for higher pension (sickness benefit, unemployment benefit), although the insured persons with lower income may participate in the insurance system with lower insurance contributions (in terms of absolute figures) and later receive the accordingly lower benefits. There is no sound reason why the insured persons with higher income should not have the possibility to opt for lower insurance contributions as well. The transition to the merit principle in mandatory insurance recognizes the possibility of free selection of the premium amount by the insured person directly. For the future, it is recommendable to replace the merit principle in social insurance by its voluntariness.

Another distortion consists in the "splitting" of social contributions between the employee and employer; this just makes unclear the overall labor cost and social contributions burden level. The existence of guarantee insurance and Solidarity Reserve Fund within SIA can be deemed as groundless. The guarantee insurance is a non-system reimbursement of wage entitlements of the employees originated at those employers, who became insolvent and thus unable to meet their obligations related with these employees. This insurance makes the employers, who meet their obligations to their employees and behave in responsible manner, to pay the debts of those who do not do so and behave in irresponsible manner. Solidarity Reserve Fund has to serve for participation in settlement of debt in 1st pillar of the pension system and to reimburse the damages occurred in the 2nd pillar. However, it would be more appropriate to finance the both items from other sources (e.g. privatization resources and/or savings in public expenditure).

Ad e): Regulations on Labor Market

The labor law became more flexible in Slovakia after the changes made in Labor Code during election period between years 2002 and 2006. In comparison with most of the other EU countries, this law is more liberal. The administrative barriers for labor market and excessive protection of employees remains.

Nevertheless, as far as the principle of limited government concerns, the existing status can be identified as persisting distortion caused by undue government's intervention into the market relationships between employers and employees. The current law in Slovakia remains too detailed and restricts in groundless fashion the contractual freedom in the labor market. For relations between employers and employees, the legislation should just create the indispensable framework instead of detailed regulations.

Also the legal definition of trade union powers against the employers is insupportable. The relationships between trade unions and employers should also be based on their mutual agreement. During this election period, there were positive changes in this issue, since the tripartite act was repealed.

However, this act applied at national level only. At the level of the companies, the powers of trade unions guaranteed by the law remained unchanged.

Specific restriction for the labor market consists in excessive protection of employees against their firing. According to World Bank[57], Slovakia has the second most strict regulation of protection of employees against firing from among all OECD countries. The job termination is too demanding for both paperwork and time. Such strong legal protection of employees "enables" to keep considerable share of long-term unemployed. For Slovakia's conditions, also good law for partial-time contracts is missing. Also the time limits for fixed job contracts makes the labor market less flexible, as well as the missing law related to fixed job contracts.

Also the existence of minimum wage is a system distortion of labor market. Minimum wage interferes the contractual freedom between employers and employees, and, in some cases, it may constitute an obstacle for employment, mainly of underskilled manpower in activities, whose market value does not exceed the minimum wage value.

The EU pressure and ambitions to regulate and harmonize also this area at European level pose threat for the flexibility of the labor law (not only) in Slovakia. It is just too large regulation and rigidity of labor markets, which causes higher unemployment in European countries than, for example, in the U.S.

Ad f): Strongly Paternalistic and Centralized System of Social Policy

Social policy system is strongly centralized in Slovakia. There are two segments of social policy fully in government's hands: social support for families with children and social insurance, except 2nd and 3rd pension pillars. However, their weight remains smaller than that of 1st pillar, which remains in Social Insurance Agency and even regardless to that, the mandatory 2nd pillar is more dominant than the voluntary 3rd pillar. The remaining types of social insurance remain in hands of SIA, which is under government control, and there is no space for the existence of private and voluntary unemployment and/or sickness insurances.

Only the social services, which constitute a form of support to citizens in social need, were devolved to local and regional authorities. Although both central government and lower level authorities participate on the remaining two segments of social policy, i.e. on help in material need and the active labor market policy, most of the powers are in hands of central government or the employment authorities managed by it. No conditions for more intensive action of private entities, whose activities are regulated excessively by the law, are created in the area of active policy for labor markets. Within public sector, the shaping of labor market policy is centralized. The rules are given at national level and this disables to formulate this policy with regard to local needs and to create various alternative models of the unemployment solution nationwide. Such models could compete mutually and could be compared as far as the solution efficiency concerns.

The design reform of social assistance in material need took into account that after two years, the responsibility for assurance of basic life terms of people in destitution will pass to the municipal authorities. However, before the end of this period, the force of this provision was postponed. Thus, the

57 See Doing Business (2006).

decisive responsibility for the help to people in material need remains in hands of specialized employment authorities controlled by the central government.

Therefore, the responsibility of municipal authorities, which know better the situation in their respective localities, remains very restricted. This reduces the efficiency of the policy implementation. Since the basic rules and tools are defined at central level also in this issue, the possibility of municipal authorities to implement specific strategies is minimal. This precludes the generation of competitive environment, which might contribute to the search for more efficient conditions, which could be tailored for the specific locality, for the appropriate solution of the poverty problems.

Ad g): Intricacy and Non-Transparency of the Social System

The social system is intricate and non-transparent. It includes a lot of mandatory social contributions and even more various social benefits. Part of the social policy is financed from taxes (national budget and local and regional budgets) and the other part from various types of social "insurance".

From among eight mandatory social contributions[58], seven are paid to the same institution (SIA), except the health insurance, which is paid to health insurance companies. The system includes different ways of calculation of the assessment base for social and health insurance as well as for various types of income (e.g. job-based or business-based incomes). It defines various maximum assessment bases: for unemployment and guarantee insurances, the 1.5 times of average wage; for accident insurance, no assessment base is defined and for other types of insurance, 3 times the minimum wage.

The minimum wage is the assessment assessment base, but in the past, there were also several minimum assessment bases, although the insurance types were divided in groups different to those used at maximum assessment bases[59]. In the past, both minimum and maximum assessment bases for the individual types of insurance were defined as fixed amounts; today, the minimum assessment base is bound to the minimum wage and the maximum assessment base to the multiple of average wage. Due to this, both maximum and minimum assessment base are increasing continuously (maximum: every year; minimum: whenever the government increases the minimum wage). The splitting of the social contributions payment (even for the same types of insurance) between employers and employees makes unclear the real social contributions burden rate and real labor costs.

The system of social benefits is even more intricate. It contains as much as 53 different benefits, grants and contributions as well as two another forms of financial support of social nature (tax bonus for child and social contributions bonus for child; however, the latter was cancelled as of January 1st, 2006). The number of benefit types increased significantly right during the period of the current government – in 2002, there were "only" 33 types of benefits[60]. Nine benefits of government social support are stipulated in six different acts. The social benefits are universal regardless to the real need of the receiver. Certain of them are non-system, based on single payment and have no relation with the social situation of the receiver; they relate to certain event – e.g. child birth benefit, funeral benefit as well as single-payment benefit in case of start and end of tutorial care are paid. Although the Slovak Army is fully professional already and both basic military and civic services are cancelled, the act on

58 The unemployment, guarantee, sickness, old-age, disability, and accident insurance, Solidarity Reserve Fund and health insurance.

59 For pension insurance, this was SKK 4,000 per month, while for unemployment and health insurance SKK 3,000 per month.

60 For more details, see Sulík, 2005. R. Sulík mentions as much as 56 types of payments, which are the tools of the government's social policy. Aside the benefits, contributions and grants, he includes among them also the tax bonus and reduction of social contributions per child as well as non-taxable minimum of the taxpayer.

care contribution designed for families of soldiers in basic military service and persons carrying out the civic service are still in force.

The tools of active policy for labor markets are included in 12 different benefits in accordance with the Employment Act; the activation benefit in accordance with the Act on Help in Material Destitution is supplemental to them. Some benefits, for example, the health care benefit of SKK 50 per person per month, have literally symbolical or psychological importance only[61]. Other benefits have nature of social engineering and they have no practical impact.[62]

61 The health care benefit gives and impression of compensation of payments in health care.

62 For example, the benefit for job migration is based on naive expectation that the government benefit of SKK 10,000 will increase the manpower mobility and will motivate the people to migrate to areas with more job opportunities. This benefit was paid to 51 persons only during the whole year of 2004.

3. Attempts of Solutions for Long-Term Social Problems

3.1. Reform Steps in Social Sphere in Slovakia

After its start in 2002, the second government of Mikuláš Dzurinda performed some reform changes, which meant a mitigation, but not systematic elimination of distortions in social affairs: changes in labor law and those related to solution of unemployment and material destitution.

Changes in Labor Law

In May 2003, the Labor Code amendment has been adopted. This increased the labor market flexibility and reduced the degree of regulation of the relations within labor market. Several essential restrictions of labor market flexibility endured (see *Section 2.2.2.2* for more details).

The amendment made possible larger application of employment for definite period as well as other than full-time employment contracts. It allows the employers the repeated conclusion of labor contracts for definite period. The labor contract termination with an employee who does not meet the requirements for due labor performance became simpler. Also the contract termination for less grave infringement of labor discipline became possible, provided the infringement was repeated and the employee was warned on the possibility of such termination during the previous 6 months. Certain improvement with regard to the working time modification appeared; the possibility of over-time work and irregular distribution of working time also increased. The range of reasons, which the employer is obliged to provide paid off time for, was reduced. Partially, also the privileges of trade unions in relationship with the employers were reduced. The co-existence of employee council and trade union body at the same employer is enabled.

It was due to this change, why Slovak labor market became to be considered as one of the least regulated labor markets in EU[63]. On the other hand, the legislative for relationships between employers and their employees remains too detailed, demanding for paperwork and restricting the employers. It goes far beyond the minimum legislative framework necessary for these relations. Nowadays, the regulations applicable at EU level constitute the obstacle for full elimination of labor market regulations.

Changes in Solution of Unemployment and Material Destitution

Several changes took place in the solution of unemployment and help for citizens in material destitution after the elections in 2002. From 2003, both amount of benefit in material destitution and overall support for the family[64] were reduced. The primary reason for these changes was to reduce the public expenditure. However, one of the effects of this measure was the increase of difference between in-

63 In the World Bank Index called Labor Market Regulation for 2005, the labor market regulation degree in Slovakia is equal to 10, while the value of 0 represents the minimum and 100 the maximum regulation. For comparison, Denmark achieved 17, U.K. and Belgium 20, Ireland 29. On the opposite side of this evaluation are countries with strongly regulated labor market, such as Spain (69), France and Greece (66), Portugal (58) or Germany (55). Source: Doing Business 2005

64 Before 2003, no maximum amount of family support was defined. From 2003, it was limited with the maximum of SKK 10,500.

come based on social benefit and the job-based income. It is just the social comfort, caused by relatively generous social system, which keeps the unemployment high and the people in passivity.

From 2003, the registered unemployed are obliged to search for job actively and once per 14 days come to the employment authority and prove that they are really doing so. The non-compliance with this obligation meant the exclusion from the list of registered unemployed persons. In 2004, further reduction of help in material destitution[65] took place and the difference between job-based income and that based on social benefits increased again. To certain degree, the benefit reduction was compensated with system of contributions related with the benefit. Activation contribution was new, and, from the point of view of the system, the most important from among them. It is designed for citizens in material destitution, who increase their qualification or work at smaller community tasks or voluntary works within 10 hours per week at least. At the same time, contribution for activation tasks paid to municipalities and organizations managing the activation tasks for people in material destitution was implemented.

The performed changes had impact in praxis, since the extent of social system abuse[66] and registered unemployment rate[67] decreased. The basic declared principle of the implemented measure was the phrase „working is worthwile". These measures were aimed to reduce the social comfort and make pressure on the activity of the unemployed as well as to make them search for job actively and avoid keeping them in passivity.

Despite these positive trends, the implemented changes cannot be considered as sufficient. Often, the pressure on the search for job was just nominal and the unemployed did not visit the employers with the purpose to find a job, but just to get the confirmation that the employers cannot employ them. The activation contribution amount was not motivating, since with regard to the basic amount of benefit in material destitution, it is disproportional and also its form is questionable[68]. The contribution amount is related neither with the work done not with the time worked.

The activation tasks can be performed only for municipalities or limited number of public institutions and non-profit private entities. They cannot be done within private entrepreneurial sector. The fact of limitation of the time for activation tasks as low as 10 hours per week (i.e. Ľ of standard working time) is troublesome. The mere fact, that to a person in destitution, but able to work, is paid cash support without strict demand for counter-value in form of his activity, is the systematic problem of relation between basic benefit and activation contribution just as the benefit supplement.

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65 Till 2003, the total amount of benefit in material destitution for the family consisted of the sum of benefits of the individual members of the family, whereas from 2003, the total benefit amount for the family became limited. As of 2004, the Act on Material Destitution defined the benefit amount for 6 categories: single, single with maximum of 4 children, single with more than 4 children, childless couple, couple with maximum of 4 children and couple with more than 4 children. The benefit amount for family with 2 adults and more than 4 children was determined at SKK 4,210, i.e. 40% approx. from the up-to-then maximum limit of total benefit for family in material destitution.

66 That part of people who worked ilegally and simultaneously were paid the benefit in material destitution, was excluded from the list of registered unemployed persons.

67 The unemployment rate as verified in Statistical Office of the Slovak Republic dropped from 17.9% in 4th quarter of 2002 to 15.6% in 3rd quarter of 2005. The (registered) unemployment rate dropped from 17.45% in December 2002 to 11.36% in December 2005.

68 As of January 1st, 2004, an activation contribution of SKK 1,000 was implemented. This was an negligible amount with regard to the basic benefit in material destitution, so it could not motivate sufficiently the unemployed to become more active. As soon as on April 15th, 2004 the activation contribution was increased to SKK 1,500. So prompt change means that the motivation aspect was not thought over sufficiently before the contribution implementation. During the writing of this publication, its amount was equal to SKK 1,700.

Within the active policy for labor market, institutional and substantial change took place, which, despite certain positive moments, cannot be regarded as sufficient. At institutional level, the instead of the National Employment Authority, constituted at tripartite participation, as well as the network of its branches, the Labor, Social Affairs and Family Center under government control and the network of its branches was established. On one hand, this meant the reduction of trade unions' interventions into the performance of employment policy and increase of the government responsibility, but on the other hand, neither decentralization nor deetatization of the employment policy took place. Although in the matter of subsistence, the government's attitude toward the previous implementation of tools in active policy for labor market was critical and so these tools became to be, at least partially, more individual-targeted, but they are still conceived too largely and contain lot of different contributions and tools with questionable efficiency.

Moreover, the increase of individual-targeting in issues of social help to people in material destitution in this period was accompanied by weakening of the targeting, or even its complete elimination in the issue of social support to families with children – e.g. by the mean of universally payable child allowances regardless the family income or paying of parental contribution to working parents as well.

3.2 Reform Patterns Worldwide

The prerequisite for systematic welfare reform solving the gravest problems in Slovakia is the exploitation of the experiences from the relatively successful reforms worldwide. No reform worldwide meant absolute approximation to the implementation of basic principles in social affairs as defined in Section 1.2 hereof. Some (elements) of them, however, are inspiring also for Slovakia. For instance, the following belong among them:

- government's task reduction in social affairs in Ireland and New Zealand (Section 3.2.1);
- labor market liberalization in New Zealand (Section 3.2.2);
- self-sufficiency programs in some U.S. states (Section 3.2.3).

Aside these, we mention (in *Section 3.2.4*) also the examples for use of non-monetary instruments of the social policy (in this case, vouchers) in Germany and the U.S.

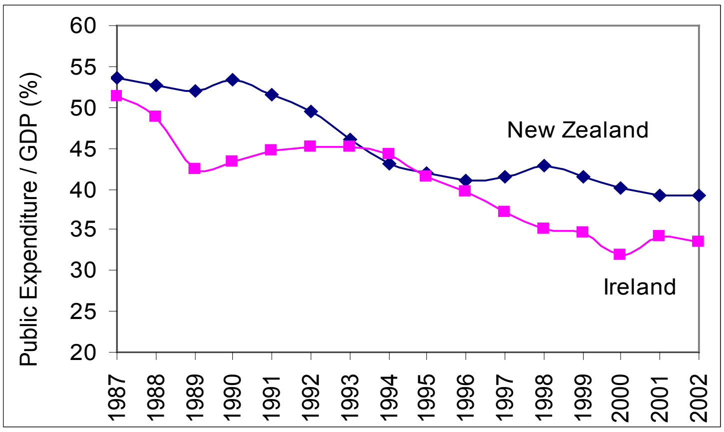
3.2.1 Government's Role Reduction in Social Affairs in Ireland and New Zealand[69]

The base for description of elements of successful welfare reforms consists in indication of the trend framework for two crucial economic reforms related to the government's task reduction: in New Zealand during the second half of 1980's and first half of 1990's and in Ireland during 1990's, significant reduction of the ratio of public expenditure vs. GDP took place. In both countries, this took one decade approximately to achieve a reduction exceeding more than 10% (Chart 5).

69 Our goal is not to describe the issues related to the examples of reduction of government's task in the society. Therefore, this part is submitted at indicative level only. This applies mainly for Ireland. For more details on economic reforms in Ireland, see, for example, Fortin (2002), http://strategis.ic.gc.ca/epic/internet/ineas-aes.nsf/vwapj/dp12e.pdf/$FILE/dp12e.pdf and on those in New Zealand during the second half of 1980's and first half of 1990's, http://www.rogerdouglas.org.nz/default.htm, http://www.rbnz.govt.nz/ and www.libinst.cz.

Chart 5

Public Expenditure to GDP Development in Ireland and New Zealand



Source: OECD (2004a), chart by authors.

Mainly from the second half of 1990's, Ireland has achieved significant decrease in public social expenditure. Between 1990 and 2002, the weight of public social expenditure in economy in Ireland decreased by nearly 5% to less than 14%. Such ratio of public social expenditure to GDP corresponds, for example, to approximately half of the same ratio in Sweden.

The reduction of public expenditure in social affairs in New Zealand was not significant in general terms, since its decrease in first half of 1990's nearly compensated their increase with regard to GDP in the second half of that decade. Only the government that arose from the parliamentary elections at the beginning of 1990's, i.e. that one following after the government led by Roger Douglas, dared to do so. Paradoxically, the reform of social benefit area and crucial market reform took place only after the implementation of one of the most successful economical and political reforms worldwide, the "rogernomics" in the second half of 1980's.[70]

The social benefit reform was intended to deal mainly with the "poverty trap" problem.[71] For instance, New Zealand succeeded in that time **to change all universally payable benefits** (except the pensions) **to individual-targeted**. The government also cancelled the universally payable child allowances. Only poor parents could claim these allowances (Dvořáková 2000).

In order to solve the problem of expanding dependency of people to benefits and the poverty trap, it was crucial that thence, the government decreased significantly the amount of paid benefits (e.g. the unemployment benefit by 10% approx.) and shortened the total period of the benefit payment. In both countries there are low (long-term) unemployment rates, achieved also due to low tax and social contributions burdens of the labor costs (see Chart 10 in Annex). New Zealand is the first in the ranking

70 The name of "rogernomics" is, like that of "reaganomics" and „thatcherism", based on the name of the author of the implemented economic reforms. This was, in New Zealand, Roger Douglas, finance minister between 1994 and 1998. Under his leadership, during two election periods of ruling Labor Party in the second half of 1980's, crucial reforms aimed to create market environment have been implemented. The tools were, for example, privatization, tax reform, cancellation of government subsidizing for businessmen, deregulation of financial sector etc. However, it was just the labor market reform and reform of social benefits, which Roger Douglas and his Labor Party did not carried out. It was the conservative National Party, who started these reforms after its victory in elections of 1990. Ruth Richardson, finance minister between 1990 and 1993, became the leader of these reforms.

71 See the footnote 5.

even when only the social contributions burden of labor costs is compared, since it does not require any mandatory payments to public social affairs (Chart 3).[72]

3.2.2 Liberalization of Labor Market and Government's Role Reduction in Social Affairs in New Zealand

The reforms of New Zealand government at the beginning of 1990's aimed on liberalization, deregulation and decentralization of labor market constitute the example of deeper system changes targeted to solve the problems of long-term unemployment. The goal was the creation of conditions motivating the environment to generate jobs (in private sector) and the will to become employed as well as to release the majority of the increasing number of peoples addict to social benefits.

Crucial reform of labor market became the basic prerequisite for the solution of social problems in New Zealand's society and good pattern for other countries. In 1990, the conservative government was the first one, which resolved to eliminate the long-term enduring labor market distortions, which prevented them from working and caused significant overemployment, latent unemployment and equalitarian wages within specific professions.
Mainly the following belonged among the most accented distortions:

- centrally determined wages and their inspection at individual professions (including the so-called farmers' incomes compensations) and
- enacted privileged position of trade unions organized on professional base, mandatory membership of employees in trade unions[73] and impossibility of individual agreement of employment terms.

In order to solve these system defects, the government adopted in 1990 the key legislative document – The Employments Contracts Act. This helped the government to decentralize and liberalize the labor relations and make more flexible the labor market in New Zealand. The main features of this Act are the following:

a) *Individual Freedom and Responsibility in Matter of Agreement on Labor Conditions*
   Each employee was given the freedom to negotiate his labor conditions individually or by the mean of his representatives on the base of collective negotiation. As of the date of entry in force of this Act (1991), no collective contract (within a company) could not be applied to those, who did not became their party due to the fact, that they did not agree with its wording.
b) *Labor Agent Choice Freedom*
   From 1991, each employee may choice his representative, who will negotiate in his behalf with the employer. Thereby the act ceased to guarantee the exclusive position of trade unions and these cannot negotiate in behalf of the persons who do not concede them the written consent. On the other hand, the employer must respect the authorized representatives of his employees, however, he is not obliged to conclude a contract with them.
c) *Signature Ban for Those Contracts, which Might Give any Advantages to Trade Union Members and Which Demand or Forbid the Trade Union Membership*

Thus, the labor relationship based on contractual freedom of parties, became one of the most flexible worldwide and similar to those in the U.S., U.K. or Ireland. Unfortunately, even New Zealand did not

72 Some authors (for example, Dalsgaard, 2001) state as an example of minimum mandatory social contributions in New Zealand the additionally paid workplace accident insurance premium, paid by the employer in ratio of 1.3%. However, this is a deductible from wage costs. Official statistics (such as OECD, 2004b) do not include them among mandatory social contributions.
73 This mandatory membership of all employees in trade unions applied "only" in those companies, where more than half of the employees adopted that. For more details, see Dvořáková (2000), pp. 61-62.

avoid some restrictions adopted on the base of amendment of The Employments Contracts Act. These are, for instance, the obligations of the employers to respect the minimum wage, minimum holidays period etc.

Due to its labor market reform and reform of social benefits in 1990's following the economical reforms in the second half of 1980's, New Zealand is today one of the most free and economically developed countries in the world. These reforms contributed to significant economic recovery of New Zealand. This found the expression in faster economy growth and reduction of unemployment rate (e.g. from 11% in 1991 to 6 – 6.5% in 1996 – 1997 and in Maori unemployment rate reduction from 25.6% in 1991 to 15.6% in 1995) and in inflation rate reduction at the simultaneous increase of the citizens' standard of life.

3.2.3 Programs Generating Self-Sufficiency in Some U.S. States

Unlike in New Zealand and Ireland, the reforms in the U.S. did not aimed toward the government's task reduction, but to strict employment policy programs. At the beginning of 1996, welfare reform ran in the U.S. aimed to the following two problems of thence American welfare state closely related to long-term unemployment and "confinement" of socially needed in the "underclass" trap:[74] (1) finalize the addition of individuals and families to government social benefits by the mean of employment and marriage support, (2) prevention and precluding extramarital pregnancies and support to keep the family with both parents. The base for this reform attempts became the principles of "tough love"[75] to the neighbor and decentralization of social policy from federal to state level.[76] The legislative entities of the states became free for experiments, mutual competition and search for the most suitable solutions within the feasible and budget-related limits provided in the federal law.

The universal rules were set as follows:

1. the citizen has no claim guaranteed in advance for the social help and sanctions shall apply in case of non-compliance with the criteria,
2. two-year limit for continuous receipt of the social help and benefits was introduced and five-year limit for the lifetime receipt thereof; the states may shorten this limit as well as assign exception for

74 The reform implemented by federal *Personal Responsibility and Work Opportunity Reconciliation Act* (PRWORA) brought mainly the transition from the key claim scheme called *Aid to Families with Dependent Children* (AFDC) toward less generous *Temporary Assistance to Needy Families* (TANF). More than 70 remaining federal social schemes remained nearly untouched. The sanctions implemented by TANF are applicable only at four similar programs. The reform includes the social assistance and support to poor families, but not the social insurance.

75 This ethos is derived from Christian love to the neighbor and assistance for self-help aimed to achieve the self-sufficiency. Isabel Sawhill defines it as generous social support in form of subsidized health care and care of children for everybody who is activated in laboral point of view or works for very low wage. Activity of the needed is the base. As far as the individual behavior concerns, "tough love" is divided in three areas: (1) education – in order to exit the poverty and acquisition of positive habits, minimally the finishing of secondary level of education is necessary and the education also increases the chance in labor market; (2) family shaping – young couples shall acquire the responsibility for having children only after being married and ensuring of the job-based income; the poverty is proportional to the number of single mothers; therefore it must be clear that a matrimony in detriment of public expenditure is not acceptable, as well as it is not the fathers' irresponsibility, since the father has to contribute to his children; (3) full-bodied job is the most important element, even in case of very low wage and requirements – it has high value for the behavior long-term change; the long-term job perspective in private sector should be always preferred, although, as the last possibility there may exist also certain form of temporary work for public sector; the generous social benefits and other services shall be bound strictly to labor activity, in case of families, of one of the parents at least. See Sawhill (2003), pp. 79 – 93.

76 Some states decentralized the solution of social problems even to county or municipality levels. *Colorado Works* program in Colorado is an example thereof. Each county designs its own TANF plan. The state defines the minimum amount of benefits and checks the service quality and observance of federal criteria in the counties. The counties may adopt decisions on qualification criteria, sanctions and amounts of benefits and state-unbound grants. The county may decide on decentralization of all social services and schemes to private providers. See: Zeigler (2004), p. 37.

20% of social emergencies; after exceeding the federal period, the families may receive only state-level benefits,

3. all benefit receivers able to work shall develop, as a reciprocal counter-value for the paid benefits, labor activities in private sector, or, temporarily, in public sector, within 30 hours per week at least,
4. the states shall ensure that at least 50% (later 70%) of the single parents able to work and receiving social support will participate on any form of labor activity; the equivalent limit for normal family with two parents is 90%.
5. the states shall meet federal criteria on reduction of number of people on payroll, if they want to keep the maximum amount of federal funding.[77]

First results in the U.S. were positive, since the number of receivers addict to social support decreased from 14 millions in 1994 to less than 7 millions in 2001. 740,000 single mothers found their jobs between 1996 and 1998 and the unemployment rate within this most endangered group dropped from 19% to 15%.

Box 2

More than Story of Two Mothers

In 1990, two newspapermen, separately from each other, wrote reportings on reverses of fortune in the life of two families from the inner downtown of the U.S. capital. Leon Dash from Washington Post targeted to the fate of 52-year old Rosa Lee Cunningham, farmer's daughter from North Carolina, which had her first child as early as when she was 14. Shortly after that, she was expulsed from the school. Later on, she started to prostitute, steal in shops and sell drugs. She became addict to heroin and was jailed for illegal dealing with drugs. She had eight children with six different fathers, mostly daughters, which ended also with drugs, thefts and premature pregnancies. The other journalist, Ron Suskind from Wall Street Journal, studied the fate of young teenager, Cedric Jennings, who lived with her mother Barbara in the same quarter as Cunningham. Unlike her, Barbara raised three children and worked as clerk with per hour wage of US$5 during eleven years. She went to church regularly, lived modestly and supervised her children strictly while laying all her hopes for change on them. Her daughter Cedric graduated *cum laude* in the secondary school and started to study at Brown University. What are these so different stories about? Someones like Cunningham are poor because they live in the dependency (to guaranteed "social security"), boredom and surrender trap and behave in asocial manner. On the other hand, there are also poor people like Jennings family, which is able to revalue also a limited income from low wage. Moreover to that, they provide their children the pattern of orderly labor life, which teaches them how to become self-sufficient.

Source: adapted according to Sawhill (2003), pp. 80 – 81.

The poverty rate (based on financial income) dropped from 13.8% in 1995 to 11.7% in 2001; in 2002, the recession caused the slowing of this trend. The children poverty dropped more significantly. While

77 The funding is based on federal block grants, whose amount is derived from the amount of costs for the previous AFDC program for each state in 1996. This constitutes US$16.5 billions per year, which are allocated among the states. With decreasing number of needed, the expenses per recipient increase. They increased from US$7,000 at the beginning of the reform to US$17,000. Also the structure of the costs is changing. The help in form of benefits and transfers forms 49% of the total amount, care of children 13% and labor activities (subsidized work, professional trainings) less than 10%. The states define both qualification criteria and benefit amount for the individuals and families. The states shall observe the federal criteria within the *Maintenance of Effort* measure, which provides for states to keep the current costs at the level of at least 75% of the previous state costs for AFDC. See: Tanner (2003), p. 79.

in 1995, there were 14.6 million registered poor children, six years later they were 11.7 million. The poverty rate of Afro-American children dropped from level of 41.5% approx. in 1995 to 30% in 2001. [78]

Specific forms of social programs, their success and failures are differing state by state in function of the prevailing political culture, distribution of political power between Republicans and Democrats, demography, local economy and other facts. We will mention the following four successful models aimed to solve the poverty and long-term unemployment:

1. Wisconsin Works scheme (W-2) in Wisconsin;
2. Jobs Plus scheme in Oregon;
3. competitiveness of providers in New York state and the example of America Works agency;
4. Individual Responsibility Contract (IRC) tool in Colorado.

Ad 1: Wisconsin Works (W-2)

In 1986, Wisconsin kept as much as 100 thousand families, thus about 300 thousand individuals from among the 5-million population of the whole state, in social programs. One year later, the long-term social problems launched Tommy Thompson to the governorship. He managed the consent of moderate Republicans and Democrats in state legislation to implement experimental schemes, which became the pioneers of the federal welfare reform. Firstly, the state administration targeted on some behavioral aspects of the social support receivers. The *Learnfare* pilot scheme required the children included in AFDC program to observe with the compulsory school attendance. Non-observance of this condition was sanctioned by the mean of the benefit reduction. The next phase consisted in experimenting at level of selected counties with the purpose of seeking for suitable solutions of mobility of the growing number of receivers addicted to AFDC benefits in order to introduce them into the labor market. Both obligation of the needed to search job actively under the supervision of private labor agency contracted by the county and strict work-first strategy, demanding the needed to accept rather any job, although poorly paid, than replacing it with professional training, were tested.[79]

In 1994 and 1996, the first positive results reflected in new reforms - *Work First* scheme, later renamed to *Self-Sufficiency First*, provided short-term financial help and consultancy to all new applicants for social support in order to prevent their inclusion into the system. If the applicant was included into the social system, he became obligated to start to work either in private or in public sector immediately. New scheme called *Pay for performance* appeared, according to which the AFDC benefit amount was assigned to the needed in accordance with the number of hours worked in either private or public sector of the community. The sanctions were applicable for all prescribed activities, regular participation in the professional training, specialized therapy and organized search for jobs. The passive participants lost their claim to all AFDC benefits and help from *Food Stamps* scheme.[80] While in the remaining states of the Union the number of families addict to AFDC increased from 3.7 million approx. in 1987 to more than 5 millions in 1994, in Wisconsin it dropped from 100,000 to 45,000 in 1996. Although in Milwaukee, the most problematic town, the number of system clients dropped by 25% only, in the

78 See Fagan – Rector (2003), pp. 3 – 4.

79 The success of "*work-first*" strategy at long-term unemployed individuals is documented in *Department of Health and Human Services* a *Manpower Demonstration Research Corporation* study of outcome of 20 employment schemes in 2001.

80 Food Stamps scheme is administered from the federal *Department of Agriculture*. In most of the states, it is executed by the mean of specific debit cards with certain amount of money, for which the needed may purchase food in a commercial chain. The card has a locking mechanism activated as soon as the needed wants to buy a banned commodity, such as alcohol or cigarettes.

remaining areas of the state it dropped by as much as 70 to 80%. Within as short time as 7 months from the launching of the schemes, the number of receivers dropped by 33% statewide.[81]

However, the heaviest cases, mostly the long-term unemployed without labor habits, remained in the dependency trap. Therefore, the team of governor Thompson led by Jason Turner started a revolutionary *Wisconsin Works* (W-2) scheme in 1997 as universal synthesis of four well proven strategies: paternalistic administrative style with regard to the needs of a recipient proving the interest to activate himself (care of children, subsidized health care), "*work first*", "*diversion*" (preventing the inclusion into the system) and strict sanctions.

Wisconsin succeeded, by applying the new W-2 strategy and mainly the strict time limits and sanctions, to activate for work 74% receivers approximately.[82] The favorized situation for underskilled work and employment of single mothers in the nineties helped the high activation. However, the poverty rate did not change significantly. It dropped from 8.8% in 1996 by as little as 0.2% in 2002 and the child poverty rate between 1998 and 2001 dropped by 1.5%. As far as the self-sufficiency achievement concerns, 38.6% of the former clients returned to subsidized jobs in June 2000 and as much as 52.3% in June 2004. This confirms the fact that W-2 operates today with the most hardly employable clients only.

Table 4

Summary of Wisconsin Works (W-2) Scheme Levels Structure

Level of W-2	Basic assurance of the income	Mandatory engagement of participants	Time limits of the scheme
Non-Subsidized Job	market wage + Food Stamps + EITC[b]	Standard 40 hours per week	none
Trial Job	minimum wage at least + Food Stamps + EITC[b]	Standard 40 hours per week	3 months per one job contract with the possibility of extension by 3 months (maximum 24 months)
Community Service Job (CSJ)[a]	US$673 per month + Food Stamps (no EITC[b])	Standard 30 hours per week and up to 10 hours per week of education and professional training	6 months per one job contract with the possibility of extension by 3 months (maximum 24 months)
Transition to W-2	US$628 per month + Food Stamps (no EITC[b])	Standard 28 hours of labor activity and up to 12 hours per week of education and professional training	24-month limit, extension possible only on the base of individual assessment

Notes: The W-2 scheme participants are entitled also for subsidized care of children with different levels of financial participation; [a] *Community Service Job*; [b] *Earned Income Tax Credit.*
Source: Vink (1998), pp. 41 – 47; modified by authors.

81 Data according to: Rector (1997), pp. 20 - 23.

82 Based on DWD study dated on January 1999, which studied the fate of random 375 clients after they left W-2 it was found out that 83% had their job after they left the scheme and 62% worked also during the study development. From this group, as much as 80% of former clients worked in full-time jobs for an average salary of US$7.42 per hour. See: Sherman 2001, pp. 38 – 40.

Each support recipient is obliged to work. The best employable individuals with professional skills and experiences can be employed in non-subsidized jobs in private sector only. They get claim from W-2 for care of children and other auxiliary services in order to avoid their fall into the social trap ("*diversion*"). For example, as much as 31% of W-2 clients belonged to this category.[83] The problematic clients are transferred to social expert of the agency (*Financial and Employment Planner*)[84], with whom they deal with the barriers precluding their self-sufficiency.

Clients without professional skills may apply for trial job in private sector (only 1% of the clients approached to this option in December 1998), which should be temporary form of obtaining working habits with perspective of permanent job. W-2 shall refund the employer the generated job, training and supervision costs. The employee is paid at the level of minimum wage and entitled to apply for EITC.[85] The least experienced clients are obliged to participate on community service jobs (as much as 51% of the clients approached to this option in December 1998) in order to acquire the labor habits necessary for trial job in private sector in combination with the prescribed professional training, education and consultancy. During this phase, the recipient may get financial support, although only based on the W-2 agency assessment stating that he is not fit for working in private sector. The benefit receivers with the greatest obstacles to carry out a permanent job, mainly the addict to drugs or handicapped, belong to the fourth, last "transition" category (17% clients belonged here in December 1998).[86]

Box 3

The Way to Self-Sufficiency Leads through Job and Community
33-year old Coleen Clancy from Milwaukee, Wisconsin received alternately the generous social benefits from 1982. She became what some American broadcasters called ironically a "*welfare mom*"; today, we could say, a "career recipientof benefits". Welfare reforms, which started in Wisconsin in half of the nineties, forced her to change her addictive life attitude. In 1995, Coleen signed the „self-sufficiency contract" (analogy to *Individual Responsibility Contract*) with the compromise to leave the social system within five years. During 1997, she had two jobs: in school cafeteria and as bus driver. She ceased to receive the social benefits when she started to work and thus gave the best example for her two children, 9 and 12 years old. According to Coleen's words, she became motivated to self-help at the voluntary seminars of assertivity and life strategy in the local branch of YMCA. She thinks that the federal (state) social system never gave her the possibility to make progress and therefore she is owed to faith in God and support of her community for her success.

Source: adapted according to Rector (1997), p. 22 and Sherman (2001), p. 38.

83 Data according to: Sherman (2001), p. 32.

84 During the first years of W-2 implementation, there were between 120 and 130 clients per case worker, today it is less. For instance, in Maximus agency in Milwaukee, 75 clients are per one employee. See Sherman (2001), p. 47.

85 *Earned Income Tax Credit* – a tool related with labor activity of the needed allowing the tax and social levies discount (*payroll tax*) for employees with the lowest incomes. Unlike the increase of minimum wage, this does not affect the employer's wage costs and does not retard his ability to employ underskilled manpower. See: Sawhill (2003), p. 92.

86 The scheme has also especial category called W-2 *Xtra* for the receivers who are able to carry out neither standard work nor community-service work. These are mostly receivers with physical or psychical handicap or mothers with new-born baby. Based on the agreement between W-2 agency and the receiver, an individualized plan is developed. This plan includes the scope of labor activities, education, consultancy or especial training and conditions, which the activities shall be carried out under (e.g. the obligation to provide protected workshop). No limits shall apply for the social support in such case, however, the needed receives the benefits proportionally to his activity.

The participant's benefits are reduced by US$ 5.15 per each hour of absence at the agreed activity (education, work) without giving acceptable absence reason.[87] Working participation within 40 hours per week at least immediately after the benefit payment starts is the universal condition of W-2. The participation may consist in combination of work with professional training, education or consultancy. The system is very generous, but only for those who are active. W-2 benefits achieve the amount of US$628 and US$673, the fifth highest in the U.S. This amount does not include some federal benefits, such as EITC. In addition to that, there are the Food Stamps, subsidized care of children and health care for poor families.

The successful W-2 scheme became an inspiration for similar programs in another U.S. states (e.g. New York and Oregon) and also for Australia, The Netherlands, Israel and Hessen, one of the federal states in Germany.

Ad 2: JOBS Plus

JOBS Plus implemented in Oregon is an example of improvement of W-2 strategy. The labor activation procedure is similar to that of Wisconsin. The recipient shall be employed for a maximum of six months, preferably in private sector. He has to work 40 hours per week, however the employer may release him for 8 hours, during which the recipient shall seek for his permanent job actively. The state compensated to the employer the minimum wage (in 2001 it was equal to US$6.50 per hour) and all social contributions, minimizing so the employer's costs for generation of the job and providing him cheap manpower. [88] The obligation of employer to pay US$1 for each worked hour after 30 days of the employment to the employee's specific account (*Individual Education Account*) constitutes an improvement. From this account, the employee may finance his further education and professional re-training. After six-month period, the client gets US$900 approximately, which is an amount sufficient to pay five or six community educational trainings. The employer shall also provide a mentor to the employee from among his other employees, who guides him throughout the acquisition of labor skills.

The employer is entitled to make an additional payment to the subsidized wage from his own sources (usually 20%). This makes more attractive the resulting outcome of active receiver. About 40% participating employers in Oregon use this option, what gives an average wage of JOBS Plus participant equal to US$7.41. After the test start of JOBS Plus scheme in 1994 (statewide it runs from 1996), the number of families addict to social benefits decreased by 60% till 2001. The scheme meets also the self-sufficiency goal for the needed since, according to the studies, up to 90% of those who left the social system, do not return even after 18 months of employment.[89]

Ad 3: Competitiveness of Providers in New York and the Example of America Works Agency

America Works Agency is an example of successful private-public partnership in solutions for long-term unemployment. Originally, New York City subcontracted non-profit organizations only within

87 This amount is equal to minimum wage. From October 1999 to June 2004 the agencies collected US$30.2 million on sanctions. Data according to: Wisconsin Works (W-2) Program. An Evaluation. Department of Workforce Development. Legislative Audit Bureau, State of Wisconsin, Madison (2005), pp. 6 – 7.

88 The public authorities called *Adult and Family Services* and *Oregon Employment Department* administer the scheme at Oregon state level. At local level, there is a co-operation between private sector and government authorities. JOBS Plus co-ordinators search jobs for the scheme clients. If the client is a recipient of social benefits and *Food Stamps*, the subsidized wage is refunded to the employer from the costs designed for these benefits. If the client is a benefit recipient based on unemployment insurance, the subsidized wage is paid from the insurance.

89 In 2001, JOBS Plus in Oregon had more than 6,000 participating employers. 96% from them intend to employ the scheme clients also in the future and up to 80% expressed satisfaction with business improvement after entering the JOBS Plus. According to: Conerly–Courtney (2001), pp. 1 -28.

the welfare reform. Later on, it decided to open the market also for profit organizations, including the America Works. At the beginning, they were awarded with 5 contracts from 75. Thanks to the competition and such organizations as *America Works*, the number of benefit receivers in New York dropped by as much as nearly 800,000 between 1996 and 2002. In New York City, the change was more significant: while in 1995, the municipal *Human Resources Administration* reported 1.6 million receivers of social benefits, the figure was lower than 250,000 in 2003. In 1993, the New York City *Office of Comptroller* had proved that only 17% of the social benefit recipients, who found their jobs by the mean of public *Adult Training Program*, remained with the job for longer than 90 days.

On the other hand, the data from 1997 show that more than 90% from among more than one thousand of needed placed through *America Works* kept working also after one year and 80% after two and half years.[90] Such outcome not only helps the needed, but also saves public funds. Whenever the needed returns into the social systems after several months, the costs are double: the professional training and placement on the labor market were paid and, later on, social benefits again.

The agency generates its annual profit worth US$14 million with state sources and companies employing its clients. As soon as the agency places the client successfully in labor market, sends an invoice for the whole procedure to the state. The costs are amazingly low – approx. US$ 5,500 per needed. Official costs per needed in standard public schemes in New York are as high as US$29,000 (within that, US$11,000 are the administrative costs, social benefits, *Medicaid* health care program and Food Stamps).[91]

The success of America Works consists in individual approach to the needed and detailed strategy of preparation and placement procedure. Most of the employed clients begin working in a trial, four-month period. Within this period, the agency pays its client at the rate of average per-hour wage. Moreover, he may receive the reduced social benefits. The agency pays some expenses to the employer so that his per-hour costs for the created job oscillate around US$1. America Works agents visit the working client twice per month and try to meet his needs. If the employer is satisfied, after 4 months the client gets permanent job. He stops to receive the social benefit and starts to be paid by the employer. If the client stays employed for one year at least, the employer may claim for federal tax relief up to US$2,500.[92]

Ad 4: Individual Responsibility Contract

The *Individual Responsibility Contract* (IRC) is an efficient tool supplementary to other labor-oriented schemes. The contract purpose is to define clearly the rights and obligations of both benefit recipient and the agency trying to help him. First of all, an agreement on way of communication with the social agent assigned to solve the problem as tutor is defined. After the interview with the handicapped recipient, the social agent suggests the possible solution, with regard to the nature of recipient's invalidity, in order to achieve his short- and long-term self-sufficiency. After the agreement, the recipient shall get the time schedule and consultant, whom he meets regularly with. The contract defines also the sanctions for eventual non-compliance of the obligations. *Family Contract* has similar spirit. Its purpose is to ensure the due life of the family during the period, when it receives the social benefits. If

90 Data according to: Cove (2000), p. 2 and Rothman – Scott (2003), p. 22.

91 The problem can be seen also from another point of view. If New York City pays from public sources US$8,700 per year for social benefits (only) for three-member family, how much more efficient is to invest US$5,500 with the purpose to remove at least one of the family members from the system for more than year and help him to become self-sufficient? In any case, the cost difference proves that private agencies can be much more efficient (in terms of money, time and outcome) than state or municipal governments and their authorities. Data according to: Cove (2000), p. 6 and Rothman – Scott (2003), pp. 8. – 10.

92 According to: ibid, pp. 9 – 16.

the client has a family, then he is assigned to the corresponding entity (mostly a volunteers' organization), which shall ensure the consultancy and further specialized assistance and therapies (e.g. in case of family violence). The needed, together with the consultant, is trying to find the ways to cover the family budget. Client also shall undertake to meet his obligations related to the family, e.g. the observance of compulsory school attendance of his children or payment of alimonies.

3.2.4 Examples of Non-cash Forms of Assistance – Experiences from the U.S. and Germany

In addition to reform intents aimed to reduce the government's task in the society and programs leading to self-sufficiency, we include also examples of replacement of financial benefits with non-financial ones, namely with vouchers.
There are two examples:

1. Michigan Works voucher system (U.S.)
2. Voucher system in Aachen, Germany

Ad 1: Michigan Works Voucher System

There are several state social schemes within federal welfare reform, which replaced the financial payments of social benefits by voucher systems. The system is designed as to provide limited subventions in form not demanding a lot of paperwork, which increases the service quality, brings the competence among providers and, finally, gives the benefit or service recipientthe freedom of choice. The most important feature when making decision on introduction of the voucher system is the demand for the service and the private sector capacity to offer such service. Also the service diversity comes into consideration. Either individuals or nursing agency may ensure the care of children. The prerequisite is, for the providers accepting the vouchers, the compliance with quality requirements approved and checked by an accreditation entity depending on the service nature. Obviously, such specialized providers as centers for dependency cure, shall meet more demanding criteria than, for example, children nurse.

The voucher system found its application, for instance, within *Michigan Works* scheme in Michigan, where each authorized recipient of assistance from public sources has his individual account for purchase of employment, educational and other supporting services. The amount of public funds on the account is based on financial sources allocated to the employment, re-qualification and support services for family in destitution, which the client is authorized to use during the current activation phase. Each client shall receive vouchers covered by his account balance; the vouchers can be used for purchase of services authorized under the account rules. Chip cards are the voucher alternative; these cards will enable the program client to verify the purchased services and the account balance. *Michigan Works* authorities give the clients detailed information on all service providers. Their number in the market increased significantly after the voucher introduction and this generated competitive environment.[93]

Ad 2. Voucher system in Aachen, Germany

The voucher system in Aachen is based on an external sub-contractor. The purpose of voucher use in social systems is as follows:

93 See Haberkern (2003).

- efficiency increase of public sources use;
- reduction of benefit administration paperwork demand and
- minimizing of the benefit abuses.

Voucher systems are introduced, with strictly limited purpose and taking into account the individual needs of the clients, mainly of those troublesome, less adaptable and more passive. For example, this is also the case of the voucher system in Aachen district in Germany applicable from January 1st, 2005.[94]

The vouchers in Aachen constitute one form of non-financial (material) social benefit for long-term unemployed in economically active age in case of dependency to alcohol or drugs, who (1) are unable to manage the entrusted sources and/or (2) use the benefits for different purposes (abuse). They are designed also for situation when the financial and/or organizational requirements for the provision of the service for the public institution (institutions) are apparently demanding and when the choice of freedom among private providers of the services is given to the client.

The vouchers in Aachen social system are used also as sanctions substituting financial benefits in case of those who are not active and do not want to co-operate. Aachen district uses an external supplier for this service. Such voucher system is more economic and efficient.

94 The number of examples for voucher use worldwide increases constantly, e.g. Career Break Voucher in the U.K., designed for funding of the respite care to nurses of heavily handicapped or older members of family in time when the receivers temporarily do not care of such relatives (due to holidays etc.).

4. Draft of Welfare Reform in Slovakia

The foreign experiences from reform steps are inspiring for Slovakia. Some of them can be proposed as elements of consistent reform in Slovakia in certain form and mutual combination. We learned about their mistakes and failures and, also based on our experiences while attempting for changes within the framework of grievous (communist) past, we propose for Slovakia more integrated and crucial welfare reform.

4.1 Framework Concept of Desirable State

The objective of this reform draft is to propose consistent solutions of system distortions of social system (mainly those causing the "culture of dependency") and solutions of problems of individuals and families in poverty and long-term unemployment in Slovakia. In long term, this will enable to approximate as close as possible to the desirable state in Slovakia´s social system. The main cornerstones of such state are the following:

- limited government (as defined in Section 1.1) and basic level of mandatory solidarity as supplementary pillar to private activities and voluntary solidarity and
- principles of the social sphere (as defined in Section 1.2).

We find as desirable final state such conditions, when the following shall apply:

1. the individuals (except reasonable and provable exemptions) will be responsible for both their personal and family financial (and other) assurance;
2. the competition of private providers of social services will be unrestricted;
3. voluntary relationships and private funding on voluntary base, including the commercial insurance, will prevail;
4. the public pillar will become supplementary; it will guarantee only the subsistence as the basic living standard (according to reasonable and provable requirements) and it will be funded from the taxes only.

Therefore, we think that the most systemic solution is a two pillars system of social sphere financing, where the **private and voluntary schemes will prevail** and the **public pillar** will be supplementary and mandatory, funded from taxes and **individual-targeted guaranteeing the subsistence**.[95]

Just the subsistence definition is key for targeting of welfare reform, the definition of social policy role and its specific measures. Like we mentioned in *Section 1.2, Principles Applicable within Social Sphere*, the guarantee of survival indispensable conditions, such as one hot meal per day, appropriate clothing and shelter is a standard, acceptable notion of this subsistence.[96] Therefore, the really poor people in Slovakia's conditions are mainly the homeless people and inhabitants of Roma settlements.

The proposed reform adheres to the principle of "individual-targeted solidarity", targeted on such poor people, however, individually on those who really cannot and are unable to help themselves.

95 For proposals of bi-pillar system of social affairs funding, see, for example, Gonda (2001b) or, on the example of pension system, Gonda-Thomay (2003).

96 For example, Rector (2004).

We find the following as direct goals of the social policy (not only) in terms of Slovakia:

1. significant reduction of poverty rate of individuals and families within the society;
2. fulfillment of social protection against the poverty for those, who are really unable to take care of themselves and their families.

The basic milestone to achieve these goals is total (not temporary) elimination of long-term unemployment of those, who are willing to co-operate thereon. An example of significant reduction of long-term unemployment in praxis is the result of reform in Wisconsin (see *Section 3.2.2* for more details).

However, for the people, who are not objectively disadvantage (e.g. without heavy health disability), but are poor and in long-term unemployment due to subjective reasons, only a temporary and conditioned support to get out from the material need to self-sufficiency state should be provided. The condition should consist in such individual's will to develop activity (work, best of all) as the countervalue for the government's support. Another condition is the aiming of any support towards his long-term employment in private sector.

So, no „helping hand" should be given even to the people in destitution without demanding the counter-value in form of their activity. No "end-station" jobs in public sector should be offered them, i.e. no jobs without continuing in subsequent employment in private sector. Then the self-sufficiency of the individual and (if relevant) that of his family will become the indirect goal of social policy.

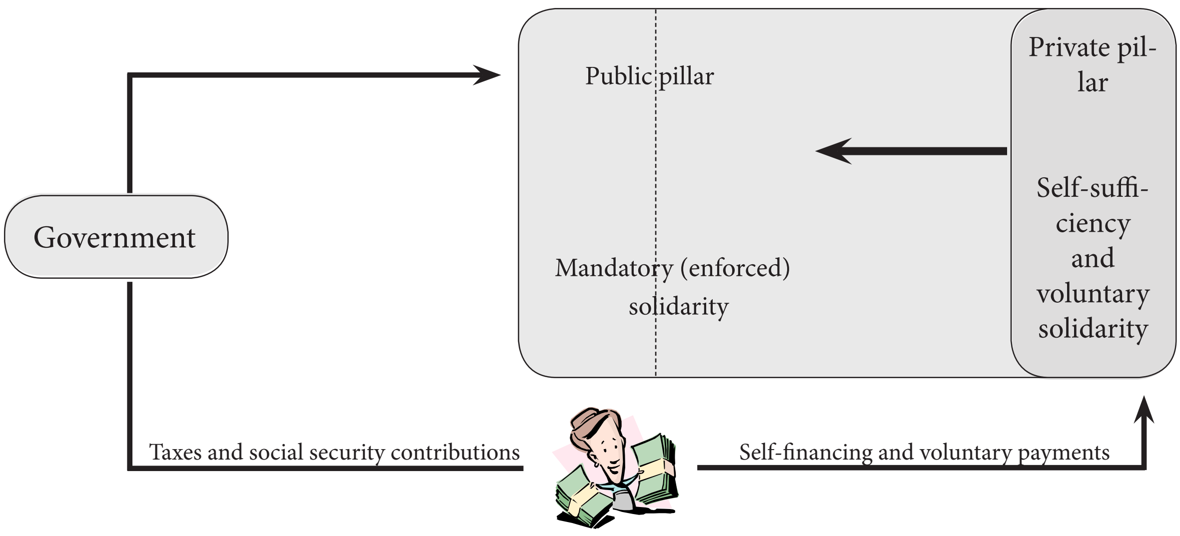
However, Slovakia and other countries are, more or less, significantly far from such attitude and concept of the responsibility. It is not possible to get close to such desirable state in short term – to do it within one election period would be revolutionary, and even within one generation it is more than questionable. Today, it requires (not only in Slovakia) the transfer of large indirect "responsibility" of general government to direct responsibility of citizens for their lives, including their financial situation.

Also the return to the historically proven ideas of limited government before the era of German chancellor Otto von Bismarck is a prerequisite thereof. And this represents the return to traditional principles of individual freedom, unlimited competition, free market and property rights.

Therefore, the aiming of reform towards the final state means the transfer of today absolutely dominant public pillar with mandatory solidarity in the individual areas of the social affairs toward a dominant private pillar with individual self-sufficiency and voluntary solidarity (*Diagram 2)*. Accordingly, the transfer of funding from "public" sources (taxes and social contributions) to direct funding from private sources should occur (for more details, see *Section 4.2.1, Measures...*). Unlike today's funding of many, and in many cases, also generous social benefits, no social contributions will be necessary for individual-targeted funding of "only" subsistence (as existential standard). It was just Bismarck, who implemented in praxis the mandatory social insurance contributions at the end of 19th century and, from that times, they constitute a significant burden of the payers and increase labor costs. This decreases the demand for employment and maintains relatively high unemployment rate.

Diagram 2

Desirable Transfer of Weight from Public and Mandatory to Private and Voluntary Pillars



Source: Authors.

Such re-orientation of perception, attitudes and money from public and mandatory to "private and voluntary" means reduction of guaranteed entitlements of individuals with regard to the government. Law in Slovakia covers large and deep-rooted positive social rights. The Constitution of the Slovak Republic guarantees some of them (for example, the "cost-free" health care). In addition, much of such social "rights" of the individuals (claimable at the government or other entities) are understood as obvious today. "Rights" for "free" academic education, "free" health care[97] as well as child allowances or rights to protection of employees against firing are the examples.

The core our welfare reform consists in change of concept, views and every-day application of the solidarity attitude. Our draft welfare reform is based on the following principles of long-term perspective, consisting in the share transfers as follows:

- from public to private social security;
- from mandatory to voluntary principles;
- from relying (even partial) on government to relying on self and relaying on voluntary help of others only in inevitable cases;
- from basic government support at central level to municipality level;
- from relatively universal payment of social benefits in cash to individual-targeted and benefits in-kind forms;
- from long-term and universal support for individual families to short-term (not one-off) support of objectivell1y disadvantaged individuals and families.

After replying such questions as "which is the idea on desirable state" and "which are the rules for long-term approximation to this state", a question with regard to the solution of problems in social af-

97 Obviously, the economists know that "there is not such thing as a free lunch". However, the implementation of "free of charge principle", not only in social affairs, is very popular among the people (and voters). The reason why is in the illusion that it is not necessary to pay for the given service or other form of assistance, since the service receiver does not pay for it directly when the service is used. However, the payment burden is transferred (also) to others within the society, who must pay for the relevant service by the mean of (higher) taxes and/or social contributions.

fairs appears: How to achieve the desirable state? Attempting to answer this question, we submit a set of mutually interconnected and subsequent measures.

4.2 Measures of Welfare Reform in Slovakia

In order to (begin to) solve the long-term problems of social affairs in Slovakia (described in *Section 2.2*), we find as the most systemic and most efficient in long term such measures, which will ensure the **backdown of government from social sphere** up to the **limit of individual-targeted subsistence**.

However, these measures should be supplemented with such steps, which will generate an environment favorable for replacement of significantly reduced and eliminated public benefits, e.g. by the mean of creation of motivating conditions (e.g. by the mean of tax relieves) for voluntary payments and donation in social sphere by entities and those for unlimited competitiveness of private providers of social services.

Not only the proposals for the social expenditure individual-targeted reduction, but also the differentiation of government's support in need. The individual's (un)willingness to co-operate is an example. This also means that those unemployed who are unwilling to develop any activity and, at the same time, are not really disadvantaged, will loose the entitlement to cash benefit and will receive only a non-financial support in kind in order to safeguard their subsistence.

Therefore, we think that unquestionable direction to the desirable state requires as follows:

1. **reduce** essentially **the government's role social sphere and level of enforced social solidarity** to an extent when the public sources (in final state, from taxes only) would guarantee the individual-targeted subsistence (included in measures of *Section 4.2.1*);
2. **pressure** on leaving the social system, when it pays off **to be self-sufficient** and to re-direct the activity (supply of services) from general government to private institutions (part of measures in *Section 4.2.2*);
3. **proposals acting in synergetic manner** together with reform measures (under points 1 and 2) **in the following related areas**: in education and creation of competitive environment for business, labor, employment and other private initiatives (see the framework in *Section 4.2.3*).

4.2.1 Measures for Government's Role Reduction in Social Sphere

We recommend the performance of measures targeted to government backdown from social affairs up to the limit of subsistence in two steps. One of them is the reduction of entitlements to the extent of social and health care paid from "public" sources. The other one is the elimination of non-systemic benefits and social contributions.

Such transformation of social system funding requires also simultaneous and coordinated implementation of "two face of the same coin" – dynamic measures in public expenditure and, at the same time, in social contributions and taxes (summarized in *Table 5*), completed with non-budget measures (e.g., proposal for cancellation of minimum wage). The measures proposed in public benefits and expenditures (as well as the rate of their importance) are mutually interconnected. Together with the reduction of solidarity level enforced by the government, a non-increase or decrease of government deficit is the secondary consequence of such measures. Also in case of Slovakia, this represents fiscally sustainable and responsible attitude to the solution of social problems persisting in long term.

This is also reason why we suggest three phases of mutually subsequent steps.[98] The 1st phase shall include the steps necessary for elimination of the most important distortions and other failures precluding such reform. During the 2nd phase, we suggest the intensification of measures from the 1st phase and, during the 3rd phase, such finalization of all measures, which will allow as great approximation to the desirable state as possible.

1st Phase of Government's Role Reduction in Social Sphere

More significant changes in expenditure and social contributions and, partially, also in taxes are necessary at the very beginning of such (for citizens) sensitive and long-term continuous change. They are not only the crucial tool for "opening the door" to (economic) freedom, but also indispensable prerequisite for the financial sustainability of the reform during the following period.

Since excessive contributions burden on the labor costs (see Section 2.2.2 for more details) is the greatest barrier for the solution of (mainly the long-term) unemployment problem in Slovakia, the introduction of our proposals starts obviously with measures related to the social contributions and the expenses funded on their basis (Table 5).

The first step in solution of too high social contributions and the related expenses should consist in full transfer of the payment of the contributions to the employees, including that portion, which, in the time of development of this publication, is paid by the employers.[99] The employers should add this amount to the gross wages of the employees. After that, the labor costs become equal to the gross wage. In this first step, the total amount of the contributions shall remain unchanged, unlike its rate and contributor will change. Instead of the current 35.2% of the gross wage paid by the employer for each employee and 13.4% paid directly by the employee, after the suggested change, the latter will pay the whole of the contributions, at the level of nearly 36% of the gross wage (which is equal to today's labor costs). This will show better the real rate of contributions burden, which decreases the employee's net wage significantly. Thus, a room for reduction of contributions and their transfer to voluntary systems will be enabled.

It is assumed that afterwards, the advocating for reduction and cancellation of non-systemic contributions and the expenses funded thereof will be easier. Therefore, as further steps within the 1st phase, we suggest the stopping of payments of benefits from the guarantee insurance and cancellation of non-systemic contributions thereto. All what the guarantee insurance payers do, is to contribute to funding of obligations of some irresponsible employers. The reserve fund is similar moral hazard and a candidate for cancellation in Slovakia. Mainly, it is its part designed for the government's guarantee in case of saver's savings defrauding in pension funds. However, it should be cancelled in its entirety

98 Sets of measures are proposed for specific phases only within the measures aimed to reduce the task of the government in social sphere, where the justification thereof (mainly with regard to high time and funding requirements at the solution of problems, mainly in pension and health systems) is the greatest. In the other parts (4.2.2 and 4.2.3), the measures can be mostly implemented and the conditions changed already in the 1st phase.

99 For the methodology of full transfer of payment of contributions to employees in conditions of Slovakia, see, for example, Gonda (2001b), Gonda-Thomay (2003), Sulík (2005) an also in Ministry of Finance of the Slovak Republic, July 2005.

since its remaining part – designed for deficits in 1st pillar of the pension system – should be reasonably funded from other sources (selling of government's assets and savings in public expenditure).

Table 5

Measures During 1st Phase of Reduction of Government' s Role [a] in Social Sphere in Slovakia

1. Phase (within 2 years after the reform start)	
Public expenditure [b]	**Public revenue [b]**
Social expenditure funded from the contributions	***Social security contributions***
Transfer of contributions to employees (gross wage = labor costs)	
non-payment of guarantee insurance benefits for compensation of employers' obligations to their employees	cancellation of contributions to guarantee fund
	cancellation of contributions to reserve fund and transfer of part of the claims on funding based thereon to the state budget
non-payment of cash benefits in unemployment to the unemployed	transfer of unemployment insurance contributions to voluntary basis and its provision by private insurance companies
non-payment of sickness benefits, benefits for care of family member and equalizing benefit during pregnancy	transfer of sickness insurance contributions to voluntary basis and its provision by private insurance companies
non-payment of accident insurance benefits	transfer of accident insurance contributions to voluntary basis and its provision by private insurance companies
non-funding of costs for the related services in health care system (accommodation, food and transport) and reduction of scope of public health care (e.g. at medical services of first aid and non-prioritaire diagnoses)	adequate reduction of contributions rate for public health insurance
reduction of scope for paid benefits of disability insurance	relevant reduction of contributions rate for disability insurance
certain reduction of replacement rate in 1st pillar of the pension system [c]	
reduction of administration expenses for SIA and health insurance companies administration (minimally proportional to the reduction of their powers and contributions)	transfer of 2nd pillar of pension system to voluntary basis
Social expenditure funded from taxes	**Taxes**
payment of partially transferred expenses from the system of contributions (reserve fund)	
cancellation of child allowances and maternity benefit	reduction of personal income tax rate to 15%

increasing amount of parental allowance and extension of the period of its payment for non-earned parents (for children in preschool age)	
cancellation of the remaining non-systemic (mainly one-off paid) social benefits – see the Section 2.2.2	
replacement all cash benefits for unemployment and material need by two cash benefits and increase of share to benefits in kind (for more details, see *Section 4.2.2*)	
Other expenditure (except social expenditure)	
reduction of current and capital transfers to business entities and non-compensation of direct payments to farmers from state budget	reduction of corporate income tax rate to 15%
cancellation of government-paid premium for building savings	implementation of 100-% depreciation of the investment assets within the period of its acquisition
costs reduction within government entities (e.g. by the mean of reduction of the govern. employees, expenses for purchase of goods and services and cancellation of several entities, incl. some ministries, such as Ministry of Construction and Regional Development, Ministry of Environment, Ministry of Economy and Ministry of Culture..).	

Notes:
a – the measures in Table 5 do not include intentionally all the measures, which might become a part of integrated reform of public funding (e.g. in tax area) or social affairs (e.g. the solution of social destitution problems)
b – "public expenditure/revenue" is a term equivalent to that of "expenditure/revenue of general government"
c – replacement rate represents the ratio of pension amount vs. wage (in %)
Source: Authors

The contributions for sickness, accident and unemployment insurances could and, within the concept of responsibility transfer to the individuals, should be changed from mandatory to voluntary, using the possibilities for the commercial insurance products.

More significant reduction of the scope of entitlements related to public finance is assumed within the 1st phase already; for example of the claims on guaranteed health care (within so-called basic package). Direct funding by individuals of services, which are of non-health nature (the related services)[100] and the co-funding of, for example non-prioritaire diagnoses and costs for first-aid medical services are well grounded.

From among the contributions-related systems, the greatest (mainly in financial terms) problem consists the pension system, mainly the system of old-age pension security. Significant increase of individual responsibility and decrease of (today set at high level) scope of claims related to old-age pension system will be difficult in Slovakia with regard to the population aging[101] and deep deformations in-

100 This applies for the total costs for food (including the overheads), accommodation and transportation.
101 The authors hereof do not deal specifically with solutions of problems related with assurance and funding of claims on long-term care in future. However, they can be found, for instance, at http://www.novezdravotnictvo.sk/buxus/generate_page.php?page_id=144.

herited from the past. Therefore, this will require longer period of time. And therefore, it is distributed in all three phases of the reform.

However, the public old-age pension security system is, under certain conditions, financially sustainable in long term. For instance, there is an assumption that in the 1st phase already could be reduced the guaranteed extent (replacement rate) funded from the public sources in 1st pillar. No rate reduction for public pension security is included in the 1st phase. The 2nd pillar as private capitalized saving may become voluntary mainly for "new" citizens (i.e. those, for whom the 2nd pillar was implemented as mandatory when the pension reform started).

The voluntariness principle is fully in accordance with the nature of pension saving, which is a form of "investment" into one's own predictable future. This corresponds to the possibility to make responsible for old-age saving the individuals; the today's younger in full extent, mainly those, who just enter into the labor market. It is also applicable that the individual responsibility cannot be enforced (for more details, see Gonda – Thomay, 2003)[102]. However, today's claims of contemporary pensioners and people in pre-retirement age should be guaranteed.

These measures may, even during the 1st phase (first two years), reduce the social security contributions rates to one half (by 24 percentual point approx.) and the contributions burden on labor costs by nearly 14 percentage points. Therefore, after the end of 1st phase, the rates of all contributions may become equal to 24% of gross wage or labor costs (see Charts 6 and 7). This decreases significantly the employment costs and increases the employment incentives for both employers and employees (mainly those unskilled and underskilled). This way, Slovakia will achieve, as far as the contributions rate concerns, the level of Luxemburg, which has the highest GDP per capita and one of the lowest unemployment rates (about 4%) among OECD countries.

We suggest **to multiply the positive effect of the significantly reduced contributions on the long-term unemployment decrease by cancellation of minimum wage**. It is the minimum wage, which "protects" the less qualified labor force against its employment. Thus, already after the 1st phase completion, the space for solution of the following main problem will be created: long-term unemployment and poverty within Slovakia's conditions.

Obviously, the significantly reduced contributions and reduced competences of SIA[103] and health insurance companies related to funding of expenses based on contributions will enable the corresponding decrease of SIA and health insurance companies' administration-related costs (*Table 5*).

Besides contributions and expenses based thereon, also the simultaneous steps in other public expenses and taxes are important for the success of welfare reform. The cancellation of non-systemic benefits belonging to tax-based expenses is recommendable in the 1st phase already. Child allowance, meeting no purpose of family-targeted support, belongs to this group, since they constitute an universal increase of the family incomes. This shall apply for the one-off family allowances. As far as the amount concerns, child allowance is greater benefit, which we believe should be cancelled or transformed into a support for poor parents. During the 1st phase, certain compensation of cancellation of these non-systemic benefits could be the transfer of weight to the parental allowance by the mean of increase of its rate up to 140% of the living minimum (this value nearly correspond to the level of

102 For more detailed systematic proposals of the pension reform, introduced before its implementation in Slovakia, see, for example, the studies dated in 2002: the analyses of M.E.S.A. 10 (Reptová 2002) and NFAH (Thomay 2002).

103 SIA – State Social Insurance Agency

minimum wage in time of development of this publication) and extension of the payment period for parents with children under 5 years old.

Also the remaining non-systemic expenses, which are burdensome for the taxpayers, should be cancelled: one-off social benefits for families, a lot of short-term aimed tools in the current social policy (without any pressure on self-sufficiency) and eventually other cash benefits, e.g. income support for those who do not need it.

Also various items in public budgets, although not designed for social affairs, are similarly non-system expenses. However, these are *de facto* "social assistance" for either individuals or household and even for businessmen and companies. Since their reduction and, optimally, cancellation will enable the implementation of the above-mentioned measures, their issues belong, at least marginally, to the reform draft.

During the first phase, for instance, we propose to stop the subsidizing of building saving companies by the mean of payment of the government premium as well as the equalization of compensations for farmers from the national budget. It is also recommendable to minimize as much as possible the other current and capital transfers paid from the taxpayers' funds to business entities (including the foreign investments) during the 1^{st} phase of the reform. During these two years, we find unlikely that any government would be able to either struggle with EU as far as agricultural subventions cancellation concerns or dare to deny stimuli to foreign investors. Despite of that, even the reduction of these transfers, together with, e.g., the cancellation of child allowance, might generate sufficiently large "fiscal cushion" for not only dynamic reduction of social contributions, but also for non-increase of taxes, at simultaneous decrease (or non-increase at least) of government deficit.

On the contrary, in case of more significant reduction or cancellation of such public expenses, certain taxes might be reduced even during the 1st phase. A desirable example thereof would be the reduction of the income tax (to 15% and the 100-percent depreciation of tangible investment assets at its purchase, see *Table 5*).

The Following Phases of the Measures for Government's Task Reduction in Social Affairs

The implementation of similar dynamic and mutually interconnected measures during the 1st phase will provide firm base for the subsequent measures. During the 2nd phase (next 2 years after the completion of the 1st phase), the following set trends should go on continuously: reduction of contributions and extent reduction for claims funded from the contributions. Therefore we suggest the reduction of replacement rate in 1st pillar of pension system and, within this phase, already decrease slightly the contributions rate for its funding, meanwhile decrease of contributions for public health insurance could be somehow greater as well as the related public expenditure.

Table 6

Some Selected Measures During the next Phases of Reduction of Government's Role [a]

2nd Phase (within 2 years after the end of the 1st phase)	
Public expenditure [b]	**Public revenue** [b]
Social expenditure funded from the contributions	***Social contributions***
replacement rate reduction (within the guaranteed extent) for 1st pillar of the pension system	moderate reduction of rate for 1st pillar
significant decrease of guaranteed scope of health care covered by public health insurance	adequate reduction of contributions rate for public health insurance
reduction of claim scope for public disability and old-age insurances	transfer of contributions for disability insurance to state budget
significant reduction of costs in SIA and health insurance companies and their administration	
Social expenditure funded from taxes	***Taxes***
reduction of claims on other social transfers	reduction of personal income tax rate to 10%
payment of disability security benefits	V.A.T. rate reduction to 15%
non-payment of other cash benefits and their partial substitution by benefits in kind and services	
Other expenses (except social affairs)	reduction of consumption tax rates to the minimum defined within EU
further (significant) decrease of transfers to business entities	reduction of corporate income tax rate to 10%
consumption reduction within general government entities	
3rd phase (long-term perspective) [c]	
Public expenditure [b]	**Public revenue** [b]
payment of basic health care benefits from national budget (directly or through health insurance companies)	transfer of public health insurance to national budget
non-payment of benefits from sources previously originated by social security contributions and their partial transfer to state budget expenditure	transfer of old-age pension insurance to taxes (= end of existence of social contributions)
cancellation of SP and significant reduction of health insurance companies	
cancellation of transfers to business entities (based on agreement within or with EU)	reduction of taxes and, by the mean of implementation of common tax from all incomes and common consumption tax (instead of V.A.T. and consumption taxes) complete one tax single and low tax ("capitation tax")

cancellation of other expenditure, which do not belong directly among the roles of the limited government	
cancellation of paternal benefit	
further consumption reduction within general government entities	

Notes:
a – the measures in Table 6 do not include all the measures, which might become a part of integrated reform of public funding (e.g. in tax area) or social affairs (e.g. the solution of social destitution problems)
b – "public expenditure/revenue" is a term equivalent to that of "expenditure/revenue of general government"
c – to be mentioned only for indicative purposes (a framework); it disregards the situation within EU, for example the cancellation of V.A.T. and consumption taxes would not be feasible with regard to the contemporary conditions in EU.

Source: Authors

During the 2nd phase, transfer of disability insurance to taxes and reduction of tax rates (income taxes to 10%, V.A.T. to 15% and consumption taxes to the EU minimum rates) are recommendable. On the other hand, it will be necessary to reduce significantly the public expenses, both social and others, for example the subventions to companies (*Table 6*).

After the end of the 2nd phase, it is assumed that also other key measures will be implemented in order to approximate Slovakia as much as possible to the final state. For this purpose, we indicate the aim of measures related to contributions, taxes and public expenditure. It is within this longer-term perspective, when the reform of contributions should be completed and the contributions should be cancelled. The transfer of other elements of contributions to taxes will become necessary as follows: transfer of contributions related to public health insurance and 1st pillar of pension system.

Since the public health insurance has *de facto* nature of tax[104], we suggest its shift from the expenditure of health insurance companies to state budget. Similarly (although later and at higher costs), the contributions related with old-age insurance 1st pillar can be transferred to taxes. This could lead to the cancellation of social contributions and subsequent significant reduction of labor costs in Slovakia. The overall effect of contributions rate reduction (Contributions Misery Index) and reduction of contributions burden to labor costs ratio during the reform phases are shown in *Charts 6 and 7*. We suggest to reduce the mandatory contributions to 14% during the 2nd phase already (i.e. within 4 or 5 years after the reform start). This is the current contributions rate of one of the most successful countries as far as the economy concerns during the last decades – Ireland, which has very low unemployment rate (*Chart 3*). During the final phase, it would be desirable to cancel the mandatory contributions completely (see *Charts 6 and 7*).

104 The main fact consists in the fact that there is no connection between the amount, which you pay and the amount you get. Most of the relevant economists in Slovakia as well as the Ministry of Finance (for instance, see *IFP MF SR, July 2005*) and Ministry of Labor, Social Affairs and Family.

Chart 6
Social Contributions Misery Index

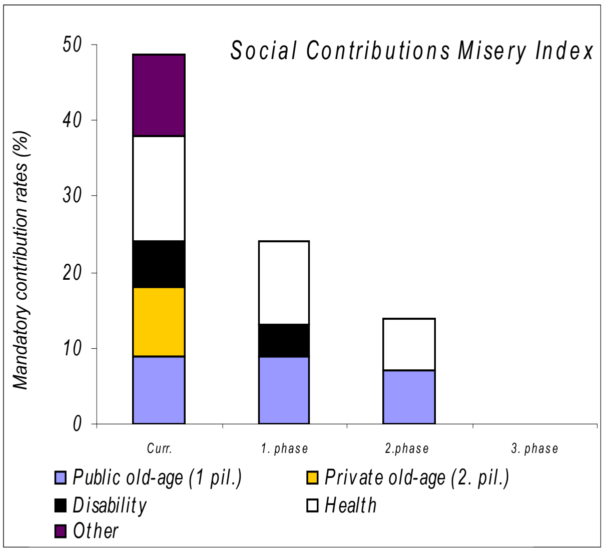
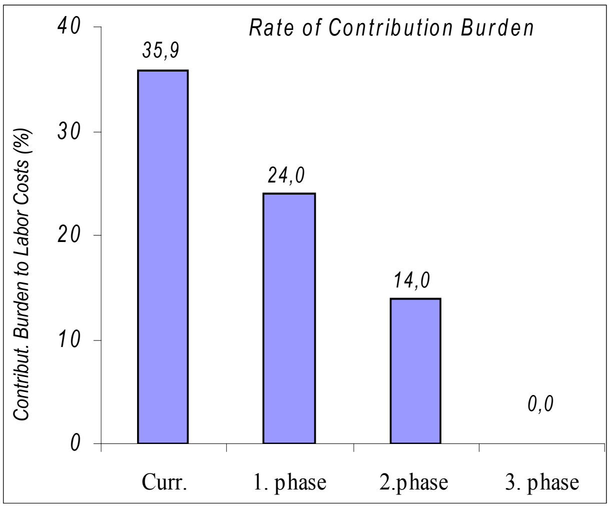


Chart 7
Rate of Social Contributions Burden in Slovakia



Note: The rate of Contributions Misery Index is methodologically derived from Tax Misery Index, published regularly by Forbes Magazine (Chren, 2005).
Source: Authors

The crucial issue to address for the individual governments (not only) during the 3rd phase (due to population aging and despite the favorable reduction of expenses in this pillar) are the sources for the public pension system deficit. The necessary amount will depend also on the governments' capacity and courage to reduce the replacement rate within 1st pillar of the pension system, as well as other (above indicated) reductions of public expenses. We assume that an amount necessary for it's (re)funding will be substantially smaller than for the debt value in case of unchanged conditions as applicable during the development hereof. Despite any changes, there will be some deficit in the 1st pillar. It could be funded, aside national budget savings, also from sale of shares and assets owned by the government.[105]

With such set of mutually interconnected measures, the government may come to state, when the funding will be based on taxes only and guarantee the subsistence in the individual areas of the social affairs – for old age, handicap, disability or other life situation, and for situations of misery and real inability to ensure one's own basic life needs. Low capitation tax is sufficient for funding of the existence minimum and further basic tasks of the limited government, while the uniform consumption tax and flat income tax at the approx. A level of 10% (this corresponds to the Rahn curve peak, see *Chart 1*) could be an important milestone to the capitation tax.

Also measures with other than financial nature should be implemented within the proposed reform; these measures should contribute to generation of standard environment motivating the jobs generation. These measures are specified in *Sections 4.2.2* and *4.2.3*.

105 We do not recommend any credit links for the funding.

4.2.2 Program Supporting the Self-Sufficiency

Not only the motivating conditions for donation, but also temporary and targeted measures of the employment policy leading toward self-sufficiency and creation of conditions for unlimited competitiveness of private service providers may compensate the government's backdown from funding and providing of social affairs.

Poverty reduction throughout gradual elimination of long-term unemployment, mainly by the mean of economic **self-sufficiency** of families and individuals is the key mission for the employment policy. Self-sufficiency program and mainly its public and decentralized scheme of "self-sufficiency ladder" (*Diagram 4*) is the base. The relevant program of temporary support for release from long-term unemployment should not only transfer the "working-is-worthwhile" message. Work is just a part of the process. The operating program for unemployment services should prefer the outcome to the process. Therefore, the desirable message, with regard to the final state, should be as follows: "**self-sufficiency works**".

The cornerstones of public program for employment services should be based within the range of two poles of "tough love" to the neighbor. On one side, the "given helping hand" shall prevail: support for self-help, individual approach and freedom of choice. On the other hand, respecting the human nature, the system shall find strong bases in individual responsibility, fiscal thrift, strict rules and sanctions. **The giving of helping hand in form of government's support** ("learning the fishing") has to be, in terms of time and extent, **acceptable during the period, when the unemployed is seeking to achieve his self-sufficiency**; however, with limited duration in order to avoid his return to the social system immediately after he leaves it.

New program of "way to self-sufficiency" and public and decentralized "ladder to self-sufficiency" program (which is included in the "way of self-sufficiency" – see *Diagram 4*) accepts that the poverty and capacity to leave the "addiction trap" is not related only with the satisfaction of material needs, but also with the learned behavior patterns. During the 1st phase of the reform, its clear design as the substitute of many employment and social policy benefits and services implemented today (for more details, see *Section 2.2.2*) is the primary prerequisite for success.

Based on the principles for social affairs (defined in *Section 1.2*), mainly the following shall apply for the public scheme for support of self-sufficiency:

1. "work first";
2. differentiated approach;
3. decentralization;
4. preference of "private" to "public" and
5. time limits.

Ad 1: "Work First"

The search for job should be priority within all activities included in employment services, even more than the education and re-qualification. Real employment, not the costly and inefficient trainings, is the best way how to acquire labor habits and skills. In order to achieve purposeful motivation, each labor activity must, obviously, pay off and be remunerated with money ("make-work-pay" rule). Defined minimum amount of this remuneration, in case of observance of all conditions, is desirable:

for instance, 140% of the subsistence provided by law (this is nearly the equivalent of the minimum wage level as applicable in the time when this publication was developed).

Ad 2: Differentiated Approach

Initiative and responsibility must pay off. Non-observance of rules and passivity shall be penalized. The "pay-after-performance" rule will motivate. According to this rule, the nominal amount of support and extent of services increase proportionally to the activity developed by the unemployed (trial job, labor in community, active search for job, education) and decrease proportionally to his passivity. This will mean in praxis, for instance, that the subsistence benefit will be paid to an unemployed only provided he complied with all the defined activities (education, search for job etc.). If the unemployed will not be responsible in the praxis, his benefit will be not cancelled automatically, however, it will be decreased proportionally to his absence on the activities. For example, if the unemployed will, during the phase of searching for job, participate in the activities during 10 hours instead of the defined 20 hours, his benefit shall be reduced by half.

Ad 3: Decentralization

The best way how to solve the problems of poverty and unemployment can be found at the level of personal responsibility, self-help and voluntary help of others. Right after this level, the most efficient is the participation of local administration and government in such solutions. These local entities are the obvious bearers of information on local situation and labor market demand. Simultaneously, the introduction of competitiveness element into the system and seeking for the best solutions by the mean of context, is well desirable. Public scheme for unemployment services managed at two levels, in accordance with subsidiarity principle, is a desirable state. The first level would be the central government with parliament, who are responsible for the legislative definition of basic principles and limits (e.g. the conditioning of financial benefit by demand for counter-value, no cash benefits to passive persons etc.). Municipality would be the second level – (associated) municipalities should have the freedom for their specific measures creation and enforcement.

In accordance with the law, the original power of employment policy (together with the funding designed within the next phase of financial decentralization) should be transferred to the municipalities, which would be allowed to associate during the transition period and created voluntarily the **micro-regional centers for employment services**. At the same time, the municipalities will be informed on pre-selected centers, where they will belong to if they will not agree another alternative on voluntary basis during the transition period. This is aimed to the existence of micro-regions and joint (common) municipal entities within the system of municipalities. Such structure would make more efficient the execution of local governments' powers and reduce the expensive number of municipalities to 300 approximately, instead of today's nearly 2,900. Therefore, it would be reasonable and desirable to connect this step with the municipal system reform.[106]

Ad 4: Preference of "Private" to "Public"

The private employment of the social system former client is the key rule of the program. Any other jobs related to public elements are not more than temporary, intermediate steps helping to achieve this goal (*Diagram 4*). Similar principle shall apply for the provision of the services and their management.

106 See, for instance, Sloboda (2005) and Slavík (2005).

It is also crucial to ensure that the municipalities would contract **private supplier** (non-profit entity, business entity etc.) for regional employment service execution based on public procurement procedures (outsourcing) and avoiding the duplicate supply of the same nature by both public and private sectors. In another words, "any service you are able to find in the yellow pages does not belong to general government". The success prerequisite is the openness for all types of entities (including those aimed to profit making) and no deformation of their free competition. Only in case of no offers from regional private entities, the (associated) municipalities should perform this activity as efficiently as possible, in form of joint centers.

Ad 5: Time Limits

There must be limits for giving the helping hand. The unemployed must realize that there is time limit for the provided financial support and services. During this time, they have all conditions for search of job and to become self-sufficient. Time limits preclude the system abuse by "professional receivers". The well-proven time limit for benefit and service lifetime receipt is 5 years, but not longer than 2 years continuously. [107] When the 5-year limit is over, all receivers able to work should receive only the help in kind[108] from public sources, or charity help from private sector or local administration (e.g. emergency accommodation of homeless persons). This measure should apply always for passive receivers, with the obvious exception of really disadvantaged groups (e.g. disabilitypped) unemployed persons.

We recommend to connect the public program for employment services to the following measures:

- benefits conditioned with (almost) whole-day activity;
- individual self-sufficiency plan (IPS) and the support tools;
- community partnerships;
- client-aimed approach.

Whole-Day Activity

Labor activity, education or active search for job should, as much as possible, replace the normal labor day dropout. The habits related to eight-hour labor day disappear as much as the unemployment period continues. This happens quickly and the room for asocial habits appears. The unemployed individual's mandatory participation on activation-related obligations should take 30 hours per week at least. The amount of his reward for labor activity (e.g. the activation benefit replacing the activation contribution) and compliance with the agreed obligations should be derived from the duration of participation in the scheme ("pay-after-performance" rule). In case of job taking 30 hours per week, the reward should exceed slightly the subsistence, however, it should increase proportionally with the time dedicated to the activation (not more than up to 140% of the subsistence).

Individual Self-Sufficiency Plan

The Individual Self-Sufficiency Plan (IPS) is basically the contract on individual's responsibility made between the unemployed and his family on one side and the provider of employment services on the other side. The individual action plan developed in accordance with §43(6) of the applicable Act No. 5/2004 on Employment Services for the unemployed is different not only due to its lesser strictness of right and obligations of both parties, but IPS will be aimed not only to improve the prerequisites for

107 In order to avoid the system abuse, the measure will require creation of nationwide digital register of job applicants, which will include the applicant's progress and type of support and services from public sources he receives.

108 For example, in form of debit card designed only for purchase of food or living costs, or in form of specific-purpose vouchers.

introduction of the individual into the labor market, but also to assess in integrated form the obstacles for his self-sufficiency and agree the procedure of their elimination, including the requirement of responsible behavior of the unemployed also in other areas than searching for job. The contract should be prepared during the meetings with personal consultant (see hereunder the specification of "client's procedure" tool), where the both parties will attempt to identify the key obstacles (insufficient skill, addiction to alcohol etc.) precluding the employment. They shall agree a set of measures and tasks with deadlines (education, treatment, labor for community, trial job etc.). The compliance with them shall be a prerequisite of any support and services from public sources except food and charity assistance. The contract shall establish the rights and obligations of the unemployed (observance of compulsory school assistance, payment of debts etc.), their checking and the eventual sanctions in case of non-observance of the agreed plan.

Implementation of these measures and observance of the above-mentioned rules assume the community partnerships and client-aimed approach.

Community Partnerships

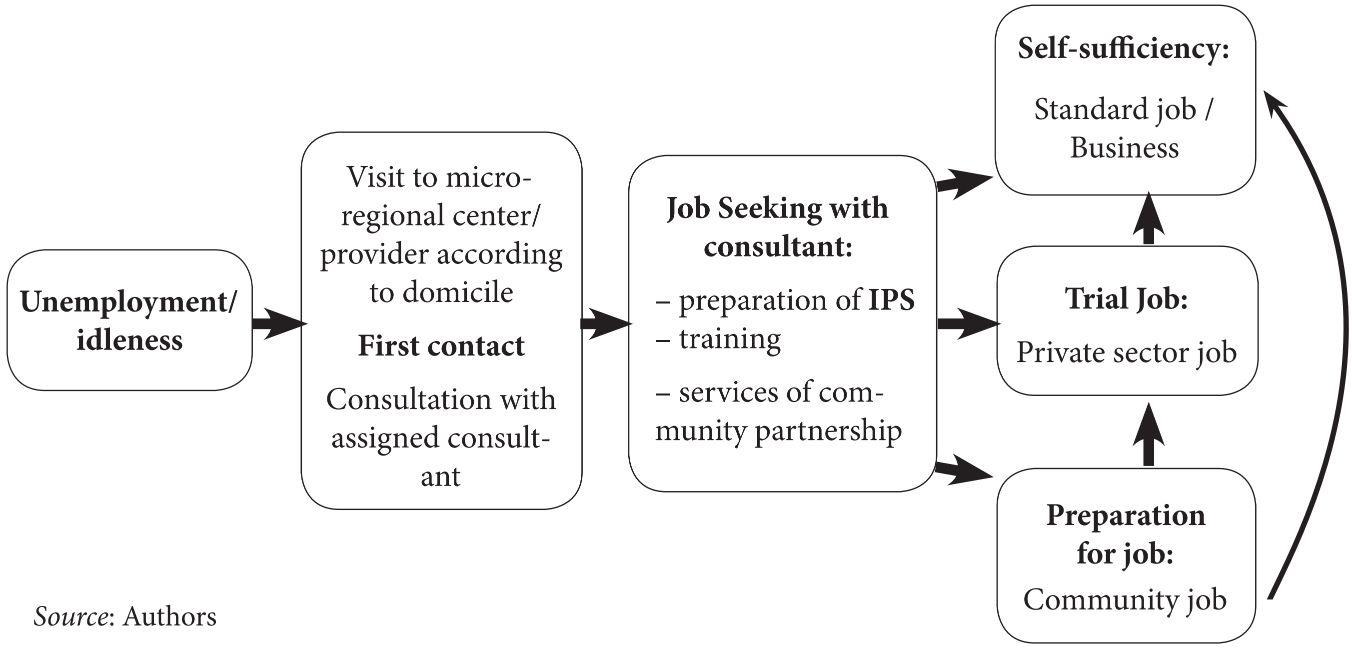
Lack of communication and partnership between general government and civic society at the community level causes no use of social capital, which the heterogeneous parts of civic society might utilize in social affairs. There is also a developing network of civic associations, foundations, non-investment funds, non-profit organizations and churches providing wide range of supplementary services carried out at personal and professional level, which might help the unemployed and his family significantly during the critical phases. Each front-line officer of micro-regional center or supplier's entity should have a list of entities within the community, which may provide the specific support service (consultancy, treatment of addiction, spiritual help, alternative free-time activities of children etc.) to the unemployed. The key representatives of the partners (regional and local administration, civic associations, NGOs, churches, local development agencies, key employers, businessmen etc.) should meet on regular basis in order to exchange information and create short- and long-term strategies in order to reduce the regional unemployment.

Client-Aimed Approach

Either micro-regional centers of private providers of employment services should apply the client-aimed approach with regard to the unemployed, with strict targeting to the goal (self-sufficiency) instead of vague administrative procedure. If necessary, also the introduction of uniform contact spots system would be a solution ("*one-stop office*") as well as the transformation of current administrative capacities to the network of personal consultants. Personal consultants with professional qualification for social affairs would serve not only as consultants at IPS development and assistance for support services. They should personally manage and control the assigned groups of unemployed on the way toward their self-sufficiency. Therefore, they should work as HR agents engaged in the procedure of search and mediating of jobs for the clients. Within the procedure of employment service scheme, the personal consultants play key role, from the first instruction throughout the development of individual plans to its monitoring (see *Diagram 3*).

Diagram 3

Simplified Process Scheme for Decentralized Program of Employment Services



Source: Authors

Based on the application of above-mentioned principles and their combination with the measures, we are able to design the framework of desirable scheme for employment services, shown in Diagram 4 and based on positive experiences of similar schemes, for example, in Wisconsin of Oregon (see *Section 3.2*).

"Way to Self-Sufficiency" Scheme

The proposed scheme (see in *Diagram 4*) consists of five levels (various, mutually interconnected approaches):

- first (bottom) level: passivity. If the client will not co-operate in order to release from the passivity, he will loose the claim on financial support, staying only with subsistence benefits in kind;
- three levels of labor activation within the decentralized scheme called "Ladder to Self-sufficiency" (*Diagram 4*);
- fifth (top) level is the self-sufficiency (job in private sector or business), without claim on public sources[109].

The labor activity within "Ladder to Self-Sufficiency" should consist of three degrees as follows: labor for community (in favor of local administrations, civic associations, churches etc.) made by receivers without labor habits, subsidized trial jobs in order to acquire the basic labor skills and, finally, non-subsidized job in private sector. Both up- and downward mobility is usual between the individual phases of this virtual ladder: from the initial unemployment to the final self-sufficiency. An unemployed person may enter the process in any phase. For instance, if he is sufficiently skilled and lost the job just recently, either micro-regional center or provider may mediate him directly a non-subsidized job or trial job in order to make him leave the system as soon as possible. On the contrary, the transition phase of search for job and labor for community are designed for troublesome clients without basic labor habits and experience. Regardless the phase he enters, each client shall agree his IPS with

109 An exception could be given to those individuals and families, whose low job- or business-based income during the critical period of creation of financial independence is not sufficient to keep the self-sufficiency. Based on individual assessment of OP, there should be available two services in form of vouchers funded from public sources: co-financing of care of children (in kindergartens and private nursing agencies) for these clients who really cannot care of children since they are working and co-financing of transportation in cases when the travel costs would not allow them to keep the employment. Based on the testing of necessity, these two services should be provided not longer than one year, but not shorter than for the period allowing the client saving funds enough to pay for these services or eventually ensure them with the help of larger family or community.

the personal consultant. At the same time, IPS is a prerequisite for receiving of support and services paid from public sources.

Cash benefits (living minimum and activation benefit or wage compensation up to 140% of the living minimum) should not be paid from the public scheme directly to the unemployed. In order to avoid their abuse in phase of search for job, this might be carried out by the mean of specific receiver[110]. This could be the micro-regional center or the provider in case of search-for-job phase and the employing entity in case of labor for the community. During the trial-job phase, the employer should receive a benefit from public funds for the salary achieving approximately 140% of the living minimum enacted by law. However, the employer should pay the basic portion thereof. He might increase this wage according to his discretion.

The temporary assurance of available income at the level of existential and life minimum by the mean of cash benefits (search for job, labor for community) or participation at wage costs from public sources (trial job) **shall serve solely for sharing the costs during the critical period**, without any legal claim thereon. **Local governments should make the decisions on extent and amount** of the support and services within the associated municipalities and the personal consultants in either micro-regional center or provider on their payment (and check of use).

Then we suggest to replace all non-system and non-transparent benefits (see *Section 2.2.2.2*) by the following two financial benefits as form of temporary support from public sources: monthly benefit of living minimum expressed in percentage (less than 100%) thereof (for the phase of search for job and labor for community) and activation benefit (for community job only), which should motivate by compensating the difference between living minimum and the limit for job-based income (140% of living minimum). The pay-after performance rule validity is recommendable for the payment of both these benefits. [111]

We recommend to implement any other forms of support in non-cash manner, e.g. with voucher system. Vouchers for defined purpose may increase the purposefulness, efficiency and effect of handling with taxpayers' funds, minimize the social benefits abuse and the related usury. All this increases the freedom of choice for the affected individuals.

We would like to mention, from among the possible forms of vouchers in municipalities, the voucher for payment of placement of child in kindergarten or nursing agencies to those families and mothers, who participate in the activation scheme. Also sharing of the costs related with transportation could be made this way. We also suggest to apply the food support from public sources, otherwise designed as the only mean of public help to passive unemployed unwilling to develop activities, also during the phase of search for job. Regardless their activity degree, the unemployed have the freedom of choice related to additional services provided by the community partnership on the base of recommendations of personal consultant.

110 The institute of specific receiver ensures the responsible handling with the income of client included in public scheme. For example, the specific receiver could, using the received benefit (benefits), after the consultation with OP, pay such payables and receivables of problematic client as alimonies, house rent or contributions to educational account, depending on obligations agreed in IPS.

111 This means, that the subsistence benefit shall be paid in full extent to the unemployed only in case of observance of all defined activities – education, job searching, IPS preparation, observance of children's compulsory school attendance etc. If the unemployed will not meet his obligations duly, his benefit will not be withdrawn automatically, but it will be reduced proportionally to his non-observance. For example, if the unemployed participates in job searching activities during the phase of job search 10 hours instead of the defined 20 hours, his benefit will be reduced by one half.

Diagram 4
Framework of "Way to Self-Sufficiency" Scheme

aiming towards the final state	form of activity		assurance of income	available benefits and services	extent of mandatory participation	time limits (deadlines)	management by
self-sufficiency	*standard job, business*		market wage, profit + tax bonus	none (beside exceptions as given in the *footnote 113*)	none (to be defined in labor contract)	none (beside exceptions as given in the *footnote 113*)	municipalities[f]/ provider[g]
trial job **preparation for job**	**public (decentralized) scheme called „Ladder to Self-sufficiency"**	*private sector job*	compensation for basic wage at 140% of living minimum [a] + tax bonus	non-cash participation on daily care of child and transportation[b], individual education account	30 hours per week at least (based on the agreement with the employer)	6 months per job with optional extension (maximum: 12 months)	municipalities[f]/ provider[g]
transition period		*Community job*	activation benefit + subsistence benefit	non-cash participation on daily care of child and transportation[b], individual education account	30 hours per week at least (from which 10 hours at least can include education and requalification)	6 months per job with optional extension (maximum: 12 months)	municipalities[f]/ provider[g]
		search for job	subsistence benefit	non-cash support in kind[c]	20 hours per week at least (e.g., 10 hours for education and re-qualification, 5 hours for search of job with consultant[d] and 5 hours of IPS[e] development)	maximum: 6 months	municipalities[f]/ provider[g]
passivity	*unemployed*		none	non-cash support in kind[c], charity help	none	none	municipalities[f]/ charity

Legend: a The associated municipalities subsidize the proportional part of wage costs up to 140% at least of the legally enacted subsistence, approximately at the level of today's minimum wage. b Symbolic level of non-financial participation of public funding by the mean of vouchers with defined purpose; participation on daily child care and transportation in accordance with individual assessment of OP in case of standard job and business is exceptional only (see footnote 113). c This consists in debit card or voucher with defined purpose for the food subvention. d Personal participation in especially designed rooms of micro-regional centers or providers and with assistance of personal consultant. e Individual self-sufficiency plan. f Micro-regional center for employment services created as joint office of municipalities. g Provider of employment services based on public procurement procedures (non-profit organization, civic association, profit-aimed company etc.).

4.2.3. Measures Completing and Extending the Reform Draft

The execution of proposed reform measures is interconnected and completed with measures in some other sectors of the economy and politics. In relation with reforms in social sphere, this is mainly the following:

1. labor market flexibility
2. education

Ad 1: Labor Market Flexibility

Although the labor-related law in Slovakia is more flexible than that of most EU countries, however, a lot of administrative obstacles still preclude the higher flexibility of the labor market.

Increase of the labor market flexibility, mainly the elimination of excessive protection of employees against job termination and creation of space for more flexible forms of employment should contribute to the solution of the long-term unemployment. Legislative provisions related to trade unions and the existence of minimum wage are examples thereof (for more details, see *Section 2.2.2.2*).

Administrative obstacles and extensions in the employment procedure could be reduced – by the mean of electronic sending of forms (e-government), "one-stop" offices etc. The relations between employees and their employers should be based merely on bilaterally voluntary contracts and collective negotiation.

However, the most important issue will be the resistance to the pressure of EU bodies and other countries made in favor of implementation of less flexible law, increased powers for trade unions and new social (over-)rights and "privileges". Good example is the recent amendment of EC Directive on some aspects of work time organization, which has to implement the work time to 48 hours weekly, limitation of extra times and strengthening

Ad 2: Education

More than half of long-term unemployed citizens has only basic education degree and lacks the basic labor habits. This generates hard obstacle for their employment. This hazard shall be eliminated, first of all with regard to the prevention of young generation's asocial behavior. Therefore, within the system of education policy, it is necessary to increase the compulsory school attendance period up to 12 years (this gives higher probability of secondary education completion), extend the zero degree institute with emphasis to acquire the basic communication skills of the children coming from socially less developed environments.

All forms of education related to the search for job shall be outsourced on the base of inquiries, optimally directly at the potential employer. Pilot schemes for long-term unemployed aiming to the completion of basic or secondary education created in non-profit sector and in co-operation with municipalities, schools and the government constitute positive trends.

The potential tool for funding the supplementary education of long-term unemployed without charging the public funds consists in creation of “individual educational account“. The employer should pay the agreed percentage of wage or activation benefit to the participant in public scheme for employment service. The money on the individual account will revalue and the activated person will be allowed to pay only trainings (language, re-qualification etc.) at private providers chosen by his own for himself or somebody of his closest family (wife or children under his care). The tool of “individual educational account“ is based on the “outplacement“ rule, which is used successfully in HR management of private companies at individual or collective terminating of job contracts.

Summary

This draft of welfare reform includes the concept of crucial change of social system in Slovakia in both long- and short-term perspectives. We are not interested in partial solutions only or in views to certain groups of population within the society. This is in accordance with Henry Hazlitt's recommendation stating that *"the art of economics consists in the research of not only immediate, but also long-term consequences of any act or measure and in the monitoring of this impact not only on one group, but also for all the remaining groups of the society"* (Hazlitt, [1946] 2005).

First of all, our long-term "view behind the corner" to the desirable final status shows a strict alternative to more or less deformed attitudes of the government towards social sphere as well as to the majority understanding of government roles within social policy in theory and praxis. We find **as desirable the status** when, first of all, the individuals will be responsible for their financial affairs and the financial affairs of their families. At the same time, **private and voluntary schemes of financing, providing of services and voluntary solidarity** will become absolutely **dominant** (see *Section 4.1* for more details). **The public pillar** as their supplement will be the secondary **funding based on taxes and targeting individually the guaranteed subsistence.** However, nobody will have the (automatic) entitlement to the cash benefit in advance.

Practical basis of the goal state consists in the identification of the crucial **distortions within social sphere**; these distortions shall be resolved in essential manner. We find as such distortions **mainly excessively large, generous and widely conceived share of the social solidarity guaranteed by the government**, high social contributions and other mandatory social-affairs related payments, cash benefits and positive social rights guaranteed in advance, universally applicable and without request for counter-value.

The measures included in the reform are grouped and proposed in accordance with several methodological criteria. One of them is the simultaneous solution of public income and public expenditure. This criterion is aimed toward the fiscal sustainability of the reform. The second essential criterion is the mutual sequence of the three phases of the individual measures. This aims, at substantial and vigorous reform, toward the reform feasibility, acceptance and also fiscal sustainability. This emphasizes not only the clear idea related to the goal status and the vigor of the measures, but also their realism and practical feasibility.

The first phase is the key period of the reform; it should take two years since the reform start. We recommend **vigorous withdrawal of the government from the social affairs** during this phase already. However, this withdrawal should be **balanced with motivating conditions for voluntary solidarity, competition of private providers and** changed policy (specific scheme) **for way to self-sufficiency** (see *Scheme 4* in *Section 4.2.2*). Training programs should serve as the complementary element.

We expect that, after the end of the first phase, the substantial decrease of social contributions (to 24% of gross wage or labor costs) and the appropriate reduction of the rate of mandatory social solidarity, together with the decreasing of personal and corporate income tax (with simultaneous reduction of, for instance, subsidies) and in synergy with the minimum wage abolition, **shall contribute to significant reduction of the long-term unemployment**. For those remaining in the social system, temporary and decentralized schemes shall be provided in order to help them get out from the welfare

system and introduce them into the labor market, with final perspective of employment or entrepreneurship within private sector.

The implementation of these and also another reform measures is the substantial solution; in case of implementation of the third (long-term) phase, it eliminates the distortions within the social system in Slovakia, too. However, it meets the financial, societal and other criteria of sustainability. It has no liquidating effects on people in destitution. In accordance with the above-mentioned, the vacant place after the government backdown from the area of funding and providing of services shall be occupied due to creation of conditions for individual self-sufficiency, private providers of social services and voluntary solidarity. Although vigorous in current conditions (also for Slovakia), such welfare reform is also feasible in praxis. It is featured by the concept of fundamentally and substantially changed goal status and set of vigorous, however gradually (by phases) implemented measures, which allows getting as close as possible to the goal.

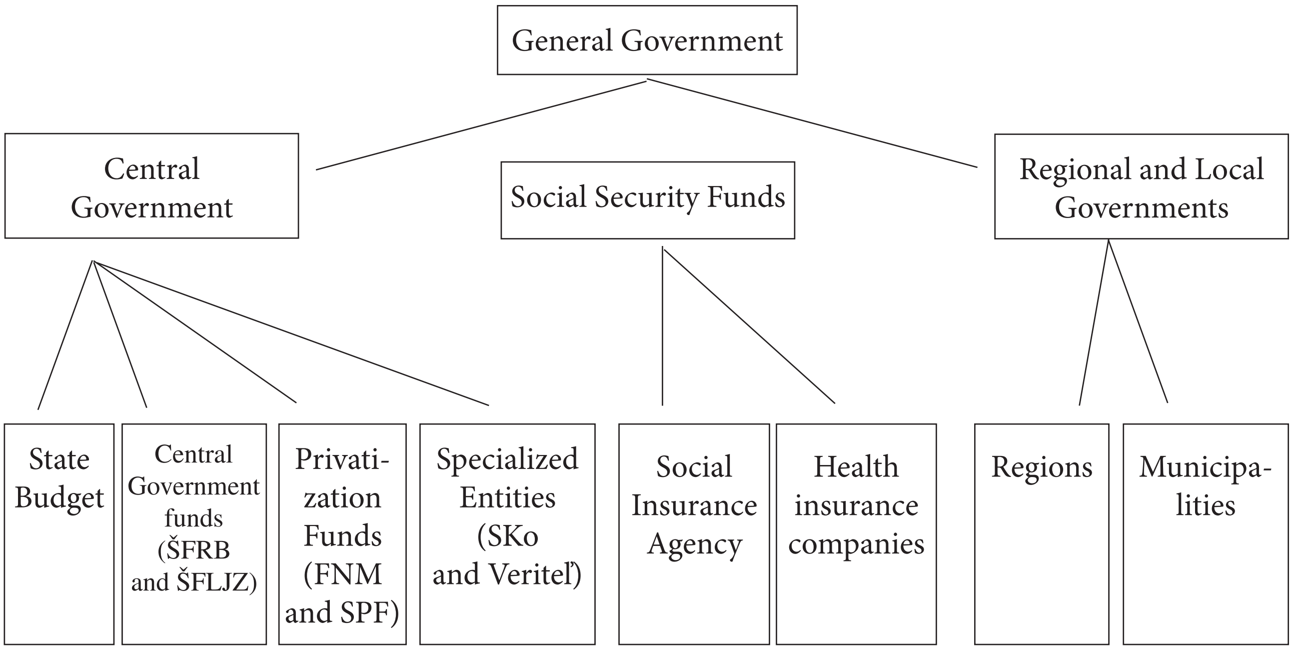
The idea of our conceptual proposals was to interconnect the individual steps in as much integrated manner as possible. Also with regard to the social policy goal as we understand it (i.e. more strictly than it is habitual for both professional and common public), we intentionally did not deal with various areas within social and health affairs (e.g. social services, long-term care, pension scheme etc.).

Despite this, we are convinced that our draft of social reform concept is sufficiently completed, systematic and efficient with regard to the solution of the main problems within social affairs, which are connected with the long-term unemployment and poverty in Slovakia.

Annex

Diagram 5

Definition of General Government in Slovakia (2004)



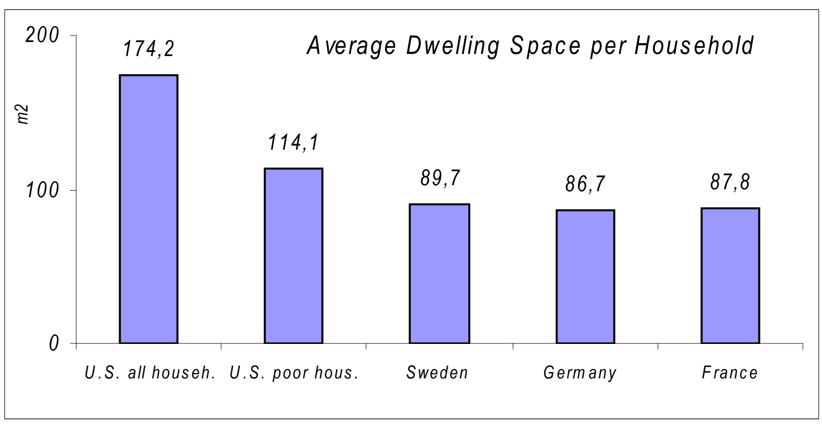
Legend: ŠFRB – State Fund for Housing Development, ŠFLJZ – State Fund for Liquidation of Nuclear Power Equipment and Handling with Spent Fuel and Radioactive Waste, FNM – National Property Fund, SPF – Slovak Estate Fund, SKo, a.s. – Slovenská konsolidačná , a.s., MF SR – Ministry of Finance of the Slovak Republic, ŠÚ SR – Statistic Office of the Slovak Republic

Note: Regional and local governments include the institutions of territorial self-government. Local governments are included in the national budget.

Source: Gonda (2004b), MF SR, ŠÚ SR.

Chart 8

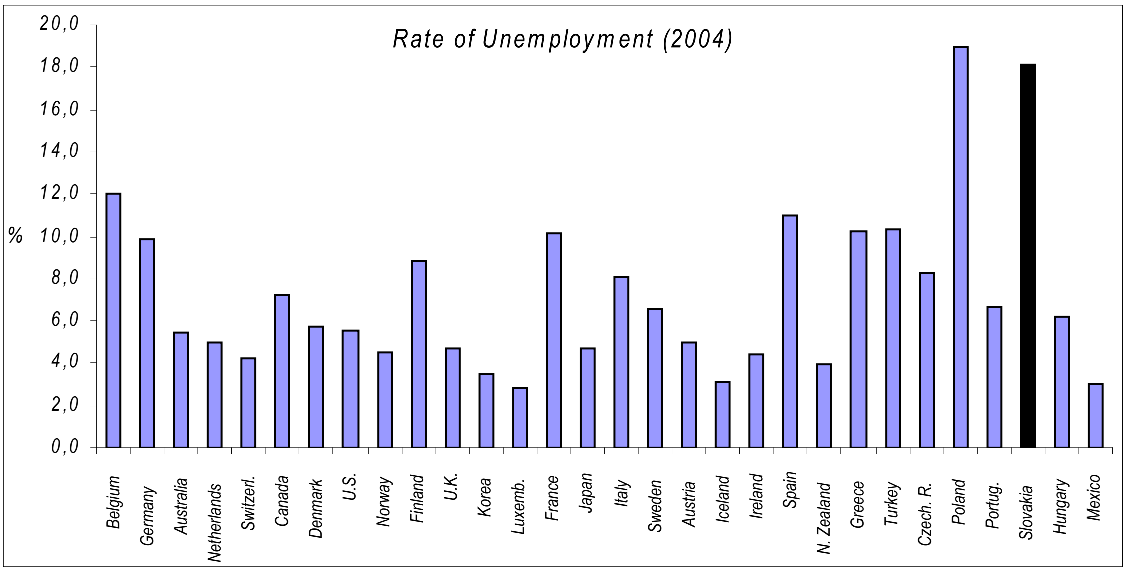
Comparison of Average Dwelling Space Between the U.S. and European "welfare states"



Source: Bergstrom-Gidehag (2004), conversion to m2 and diagram adjustment by authors.

Chart 9

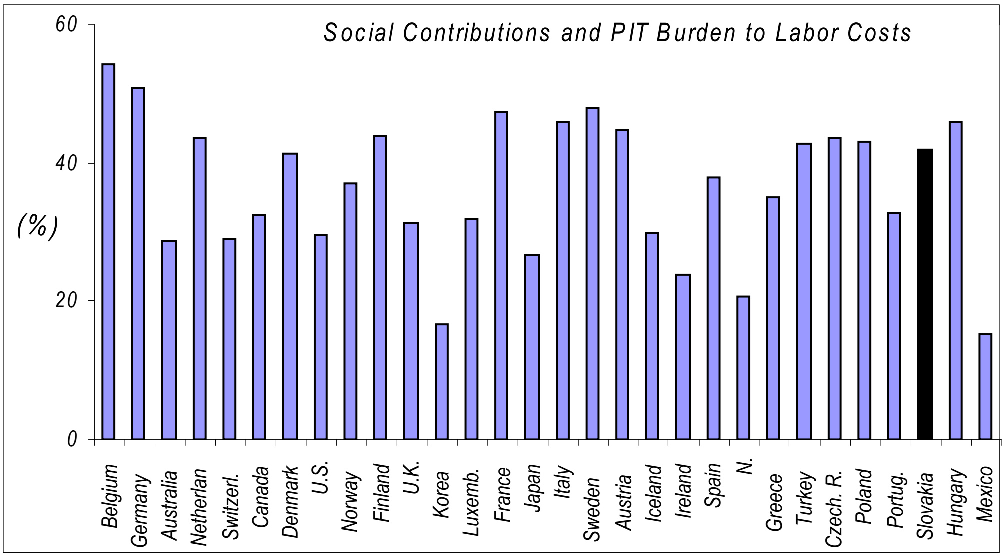
Comparison of Unemployment Rates in OECD



Source: OECD (2005), diagram by authors

Chart 10

Comparison of Tax Wedge in OECD (2004)



Source: OECD (2004b).

Table 7

Comparison of long-term unemployment share on total unemployment in OECD (2004)

Countries with relatively lower share of long-term unemployment			**Countries with relatively lower share of long-term unemployment**	
Country (total unemployment in %)	Share of long-term unemployment		Country (total unemployment in %)	Share of long-term unemployment
Australia (5.4%)	20.7%		Belgium (12.0%)	49.6%
Austria (5.0%)	24.5%		Czech Republic (8.3%)	51.8%
Canada (7.2%)	9.5%		France (10.1%)	41.6%
Denmark (5.7%)	22.6%		Germany (9.9%)	51.8%
Iceland (4.4%)	11.2%		Greece (10.2%)	54.7%
Korea (3.5%)	1.1%		Hungary (6.2%)	45.1%
Luxemburg (2.8%)	22.6%		Poland (19.0%)	47.9%
Mexico (3.0%)	1.1%		Portugal (6.7%)	43.2%
New Zealand (3.9%)	11.7%		Slovakia (18.1%)	60.6%
Norway (4.5%)	9.2%		Turkey (10.3%)	39.2%
Sweden (6.6%)	18.9%		Italy (8.1%)	49.7%
U.K. (4.7%)	21.4%		Spain (11.0%)	37.7%
USA (5.5%)	12.7%		Ireland (4.4%)	34.3%
Finland (8.8%)	23.4%		Japan (4.7%)	33.7%
The Netherlands (5.0%)	32.5%		Switzerland (4.2%)	33.5%

Source: OECD (2005)

Abbreviations

AFDC – Aid to Families with Dependent Children
APTP – labor market active policy
DWD – Wisconsin Department of Workforce Development
EITC – Earned Income Tax Credit
EU – European Union
FNM – National Property Fund
GDP – gross domestic product
GNP – gross national product
IPS – Individual Self-Sufficiency Plan
IRC – Individual Responsibility Contract
KI – M.R. Štefánik Conservative Institute
MF SR – Ministry of Finance of the Slovak Republic
MPSVaR SR – Ministry of Labor, Social Affairs and Family of the Slovak Republic
OECD – Organization for Economic Co-operation and Development
OP – personal consultant
PRWORA – Personal Responsibility and Work Opportunity Reconciliation Act
SKo, a.s. – Slovenská konsolidačná , a.s.
SIA – Social Insurance Agency
SR – Slovak Republic
ŠFLJZ – State Fund for Liquidation of Nuclear Power Equipment and Handling with Spent Fuel and Radioactive Waste
ŠFRB – State Fund of Housing Development
ŠÚ SR - Statistic Office of the Slovak Republic
TANF – Temporary Assistance to Needy Families
U.S. – United States of America
V.A.T. – value added tax
W-2 – Wisconsin Works

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