

# Evaluation of Work Oriented Welfare Model in Slovakia

## (Focused On Social Assistance in Material Need)

By Peter Gonda\*

### 1. Introduction

The recent changes in Slovak welfare system, particularly in social assistance policy (see Annex No. 1), have a good trend. However, the measures are insufficient in relation to solutions of systemic distortions and they are unbalanced between restrictions and activity stimulating tools.<sup>1</sup>

The governmental tightening of the social security system through restrictions on social assistance benefits for families was reasonable and also inevitable at that time. The measures have created certain pressure on welfare system recipients to become more responsible, to restrain their paternalistic expectations, and to limit possibilities to abuse the social security system. Their aim was to increase the difference between employment-generated income and income from social benefits, thereby to reduce social traps (incl. poverty trap).<sup>2</sup>

Also an effort of the Slovak Government to increase motivation of the unemployed people aimed at finding and keeping a job is economically and philosophically right. However, the Government pressure on social dependant people and the Government encouraging of people to become active are weak. Therefore systemic distortions in Slovakia's social welfare system (and also in other countries) accompanied mainly by high dependency of people on social benefits remain (almost) unchanged.

### 2. Main problems

In this context it is needed to introduce main problems in current Work-Based Welfare Model in Slovakia, directly and indirectly related to social assistance.

#### 2.1. Problems directly related to social assistance<sup>3</sup>

The problems directly related to social assistance which should be mentioned are as follows:

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<sup>1</sup> As activity stimulating tools it is meant only those which are conditioned by counterpart contribution of relevant welfare recipients.

<sup>2</sup> Difference between minimum wage and living minimum was increased, but problems of (relatively) generous level of minimum wage and living minimum continue to be present. Keeping the minimum wage in the system is unacceptable from theoretical and also from practical point of view. Destructiveness of this instrument lies in restraining the employment possibilities of certain labour force (significantly related to the welfare recipients).

<sup>3</sup> Problems related only to material need, not also to social need (e.g. for disabled).

- sustaining certain cash benefits without strict requiring equivalent counterpart value from recipients on the one hand and weak using of support in kind (in comparison with cash benefits) on the other hand;
- insufficient level of activating allowance and mainly the fact that activating allowance does not reflect different willingness of people to be active, mainly to work - because of flat rate per month (1.500 SKK)<sup>4</sup> for every recipient who fulfils condition “10 hours per week” (see Annex No. 1);
- no encouraging conditions for new job creation for welfare recipients in profitable private sector, since profit private entities can not arrange jobs for activation of relevant people (therefore this approach still does not represent final solution how to employ welfare recipients);
- keeping the strong position of the state administration on one hand and persisting on insufficient shifting of competencies to local self-governments and minimum possibilities for own approaches of Local and Regional Self-Governments.

Social assistance benefits will continue to be disbursed by the state. Responsibility for providing people’s basic standard of living will not be transferred to municipalities until two years after social benefits begin to be disbursed by local state authorities.

- several ineffective “motivation” tools – e.g. subsidising transfer for the relocation.

Conditions set for allocation of contribution to relocation requires a permanent residence in a new town, what indirectly assumes a purchase of a new flat, what is impossible for most of unemployed persons.

Above mentioned measure and several further tools from “package” (introduced in March 2004) were “only” reaction to Roma plunders. Therefore in their character is predominant operativeness over systemic solutions.

## 2.2. Problems indirectly related to social assistance

Problems of social assistance and welfare policy come from key systemic distortions (not only) in Slovakia: government excessive role in the economy and society (this means high redistribution rate) and excessive level of compulsory social solidarity.<sup>5</sup>

Substantial problems, which are indirectly related to social assistance could be summarized as follows:

- remaining excessive total social (and tax) burden of contributors – caused also by high social contribution rate (circa 47,5% of gross nominal wages – see Annex No. 2), thereby high portion of non-wage labour costs. This is one of the principal barriers to creating new (productive) jobs.

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<sup>4</sup> Level of activating allowance corresponds to only about 23% of minimum wage, respectively 34% of living minimum. Current exchange rate (as for October, 2004) is approximately following: 1 USD = 32,5 SKK and 1 EUR = 40,0 SKK.

<sup>5</sup> The rate of redistribution - as ratio of (consolidated) General Government Expenditure to GDP – in Slovakia corresponds to about 44% (for more details see for example Gonda, 2004).

It is confirmed by high “tax wedge”, since difference between total labour costs of employers and net revenue of employees corresponds in average to circa 53%.

- insufficient ability of economic subjects to create new (productive) job opportunities in the long run, inter alia significantly followed from previous point;
- low mobility and flexibility of labour market (mainly labour force) in spite of any Active Labour Policy tools and/or some improvements from amended Labour Code;
- systemic distortions, rigidity and regulation of the Labour Market (incl. administrative barriers, e.g. mentioned minimum wage – see footnote No. 2) – also in spite of some improvements from amended Labour Code,<sup>6</sup>

Remaining problems are especially based on insufficiently developed alternative forms of employment relationship and excessive right (protection) of employee (because of influence of trade unions, EU regulations and potentially also because of Treaty of Constitution for Europe)

- increasing of child allowance to 500 SKK per month as a flat rate, regardless of income and assets situation of parents;
- weak interlinking with other reforms – e.g. tax reform, which inter alia cause worsening of consequences for non-working people (incl. unemployed) – because of significant rising of indirect taxes.

Despite the several positive changes, Slovakia’s social assistance and also social welfare system continues to satisfy the excessive demands of citizens who may not necessarily need to be supported and it inhibits activities and efficiency of economic entities. The financing model of social assistance still (even though less) does not encourage people to leave the social net, because it is not sufficiently selective and provides excessive social guarantees.

The significance of paternalistic expectations, passivity, reliance on others (particularly the Government), lack of initiative and underdeveloped natural (voluntary) forms of solidarity remain major problems for Slovakia’s social policy, and will take a great deal of effort and time to redress.

### 3. What should the government do next?

In relation to described problems it is possible to introduce several different steps towards the final solution in social assistance in material need, respectively in social sphere. Fundamental change is still required. Programs should begin by reducing the redistribution rate of public funds and reducing the extent of government-enforced solidarity.

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<sup>6</sup> There is no intention to describe new instruments as is stated in Amendment to the Labour Code in this contribution.

### 3.1. Proposals directly related to social assistance

As for social assistance, the Government could consider the following objectives:

- fundamentally, to shift the weight of social assistance in material need only to subsistence support (benefits in kind), it means:
  - guarantee of eligibility of those welfare recipients who are unwilling to become active (PASSIVE PEOPLE) only support in the form in kind, corresponds level of basic living minimum, and
  - any cash transfer from government should be conditioned by working active approach of the relevant persons (ACTIVE PEOPLE) and should be paid to his/her employer as much as possible for private employer;
- to increase level of activating allowance and differentiate (progressively) its level according to an effort of relevant person to become active (working active);
- to create fair and stimulating conditions for private subjects (not only non-profit, but also profitable) in the social sphere (incl. conditions in the framework of the activation process) and promoting natural (voluntary) form of solidarity;
- to shift the social assistance system from the state administration bodies to local municipalities (this means abolishing local state offices of labour, social affairs and family and transferring their powers in addressing need to municipal elected self-governments);
- make decisions by municipal and regional governments as free as possible on the best way to enable compare practical results of several approaches;
- to transform prepared individual action plans with job applicant to the contract for personal responsibility (as e.g. in Oregon, USA) with strict obligations of both sides.

### 3.2. Proposals indirectly related to social assistance

Recent developments in social assistance policy, i.e. the Government's efforts to tackle isolated problems on one hand and persisting systematic distortions on the other, indicate that it will be impossible to solve deeply rooted problems in this sphere overnight and without coordinating the various reform measures.

Therefore, the precondition for any successful reform of social policy is in its close coordination with other social policy reforms and public finance reform. This means turning the indirect "responsibility" of general government for people's welfare into the direct responsibility of individuals and families for their own lives.

Therefore, from the general point of view it is inevitable to (not only in Slovakia):

- significantly reduce the Government's role (the rate of redistribution of public sources) and the overall extent of social security, mainly non-selective, flat-rate benefits and

- substantially decrease the social contribution rate with shift to private and voluntary schemes (e.g. sickness and unemployment insurance) and shift weight to employees.

It is also important that any changes should respect the basic economic rules and principles:

- encouraging people's personal responsibility for themselves and their families while respecting their personal freedom and private ownership;
- decentralization and subsidiarity, that respects the following progression:
  1. individual and family (as the basis of society)
  2. private organizations and churches
  3. municipality
  4. regional elected self-government
- 5. central government
- the principle of voluntary cooperation (voluntary solidarity, philanthropy...);
- efficiency and quality.<sup>7</sup>

Implementing a precisely targeted strategy, that envisages a significant reduction in public social insurance and consequently social benefits, will require eliminating various forms of resistance, especially from the EU, various interest groups, state authorities and a significant share of the population. Convincing people who have become used to government-guaranteed "social comfort and security" will probably be the most difficult. It will take a long time and will require thorough public education in line with the aforementioned economic rules and principles.

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<sup>7</sup> For more details see for example Dostál, O. – Gonda, P. – Thomay, M., 2004.

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## Selected Recent Changes in Social Assistance in Material Need

Principal changes before Roma Plunders (amended in January 1, 2004):

- setting a ceiling of 10.500 SKK for the total amount of the social assistance benefit, and for the some groups the motivation for work has been slightly increased (in order to curb abuse of the former social system)
- introducing of activating allowance (which is payable to a person, who become active either by taking up smaller works or participating in retraining courses (over 10 hours per week for 1000 SKK per month)

The activating allowance is payable to recipients who became active either by taking up smaller(public) works or participating in retraining courses. Entitlement of relevant person for this benefit lasts for two years, but as for long-term unemployed only for six months (in case that he/she will become employed with income between minimum wage and three times minimum wage).

- preventive allowance – for each persons in material need receiving any benefit more than two years – also (as activating allowance) only in cash;
- reimbursement of a part of travel costs for a job applicant associated with a selection process or job interview that takes place outside of the unemployed persons country residence;
- contribution for services for a family with children – intended for applicants who are looking after a child that does not go to school yet. This contribution is supposed to reimburse a part of the expenditure for a nursery school or a kindergarten or for a babysitter.
- relocation contribution (max. 10.000 SKK) – one-off contribution that job applicants may receive once in two years. It may be only be paid if a job applicant furnishes documents proving his/her move from his/her original residence to the place of work. A job applicant must also furnish a proof of the change of permanent residence.
- contribution for self-employment – for unemployed who are registered with a territorial office for at least three month and set up their own business which lasts minimum two years;
- contribution for disadvantaged job applicants that is rendered to employers who employ such a person (maximum 24 months);

- creating of individual action plan of unemployed – written document which determine the type and scope of assistance, as well as the approach necessary for enabling his/her employment, but no strict obligations of the relevant person.<sup>8</sup>

Other tools, relating to family support policy issues:

- increasing of child allowance to 500 SKK per month per child - as a flat rate, regardless of income situation of parents and child's age;
- tax exclusion (“tax bonus”) - taxpayers can deduct 4.800 SKK for each child directly from their annual income taxes (it corresponds 400 SKK a month). If a taxpayer's income tax is lower than the sum of his/her tax bonuses for children, he/she can collect the difference from the tax office (in cash);

After Roma Plunders (March, 2004):

Package of 12 measures (as a reaction to Roma Plunders) has included inter alia:

- increasing the activating allowance from 1.000 SKK to 1.500 SKK;
- broadening the preventing allowance (eligibility for pensioners, long-term ill.);
- increasing a motivation of employers to employ of long-term unemployed by special government contribution (10.000 SKK)
- fighting against usury – more often paying of welfare benefits, shift part of weight to benefits in kind.

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<sup>8</sup> For more details (incl. changes on Labour Market, followed from the Amendment to the Labour Code) see for example in *Zachar, D., 2004*.

## Rates of Compulsory Social and Health Insurance (% of Assessment Base)

Insurance	Before December 2003				After January 1, 2004 (resp. January 1, 2005) <sup>c</sup>			
	Employees	Employers	Total	Self-employment	Employees	Employers	Total	Self-employment
1. Unemployment	1,0	2,75	3,75	3,0	1,0	1,0	2,0	– <sup>b</sup>
2. Guarantee	–	0,25	0,25	–	–	0,25	0,25	–
3. Sickness	1,4	3,4	4,8	4,8	1,4	1,4	2,8	4,4
4. Health	4,0	10,0	14,0	14,0	4,0	10,0	14,0	14,0
5. Pension, incl. :	6,4	21,6	28,0	28,0	7,0	21,75	28,75	28,75
5.1 Old age (1. pill. – public, PAYG)	6,4	21,6	28,0	28,0	4,0	5,0 <sup>a</sup>	9,0 <sup>a</sup>	9,0 <sup>a</sup>
5.2 Disability pens.					3,0	3,0	6,0	6,0
5.3 Old age (2. pill. - private)	–	–	–	–	–	9,0 <sup>a</sup>	9,0 <sup>a</sup>	9,0 <sup>a</sup>
5.4 Reserve solidarity fund	–	–	–	–	–	4,75	4,75	4,75
Total	12,8	38,0	50,8	49,8	13,4	34,4	47,8	47,15

Note

a – provided the person who participates in the private old-age pension scheme (2. pill.);

b – effective January 1, 2004 unemployment insurance will be optional for self-employed;

c – the new rates of pension insurance set by the Law on the Old-Age Pension Scheme will come into effect on January 1, 2005.

Source: Author. Social Insurance Company, Ministry of Labour, Social Affairs and Family of the SR, Ministry of Health of the SR