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Slovakia's Surge:

The New System's Impact on Fiscal Decentralization

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Abstract

Slovakia's transition history long paralleled that of the Czech Republic, but the former adopted bold new reforms early in this decade. This paper is a comparative treatment of fiscal decentralization since 1993 and more recent reforms of public administration, the two efforts representing the foundation of the New System. Czech experience is invoked simply to provide an appropriate benchmark for the evaluation of Slovakia's New System introduced in 2004, including the 19% "flat tax" and other striking measures in local public finance.

The second focus of the paper is on the macro-economic impact of the New System. It is too early to perceive what its long-term effects will be, so this treatment will be more tentative. But because one would like to know whether Slovakia's return to an economic growth path is actually a result of the New System and whether this recent growth will persist, those issues are given some consideration.

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I. Introduction

Well into its economic transition, the Slovak Republic has only recently begun to diverge in substantive ways from a path of joint development with the Czech Republic. Although the two countries shared a lot of common experience through the central planning era and even into the transition period up to the Velvet Divorce of 1993, subtle but durable differences going back to the period before World War I remain a part of their diverse cultures. In the Austro-Hungarian Empire, the Czechs had developed a more industrial and centralized society than the Slovaks, whose associations during that same period were with the Hungarians. This paper attempts to show how that early tradition is currently being reasserted in the fiscal relations between central and subnational governments in the Slovak Republic.

Public sector foundations of Czechoslovakia's transition to market democracy were modeled to some extent on West European tradition. It was after such institutions were established in legislation that the Czech and Slovak Republics agreed in 1993 to go separate ways. The Velvet Divorce opened the way for divergent fiscal developments, but for the first decade of the separation there was not much divergent activity. This paper will report on the more recent Slovak efforts to pursue just such changes.

Efforts to establish fiscal decentralization in Slovakia go back to the very beginnings of the Republic. Although such efforts were not always impressive in either country before the pre-accession process for EU membership began, they should be considered the foundation of the Slovak Republic's New System. As that process continued, both republics became committed to "reforms of public administration" and to move from two levels of governance – central and municipal – to four levels. They prepared to submit themselves to governance from Brussels and also to add a regional level of government to assist in providing public services. Legislation provided for the necessary institutional changes in both countries, but it was in Slovakia that the reform of public administration was seen as a complement to rather than a substitute for fiscal decentralization. The public administration reforms were also a part of the foundation, although in some respects they also constitute a part of the superstructure of the New System.

Section II of this paper will review the initial elements of fiscal decentralization in the Slovak Republic with special reference to the property tax as a potential source of "own revenues." Section III will address the divergent development of the two republics in spite of the initial institutional similarities of their fiscal decentralization programs. The reforms of public administration will be addressed in Section IV, along with the implications of the Slovak introduction of the "single tax" and the introduction of the New System's local finance measures implemented at the beginning of 2005. Section V provides a consideration of the macro effects of the New System and the resurgence of economic growth in the Slovak Republic. The final section provides summary and conclusions.

II. Fiscal Decentralization in the Early Slovak Transition

From 1918 to 1993, Slovakia[1] was an unhappy partner in Czechoslovakia. With the end of WWII, democracy faltered and the union continued as a Soviet-type Socialist Republic. Since late 1989, and after the end of the Soviet Union, the Warsaw Pact and the Council for Mutual Economic Assistance (CMEA), both the Czechs and Slovaks have been in transition to democratic, market systems. But it is important to consider the fiscal foundation of local autonomy. It would have been logical to utilize the property tax and local user fees as revenue sources for the provision of municipal services based on local preferences. This would have been a natural part of reestablishing local autonomy after the long era of heavy centralization. But an effective property tax must be based upon the market value of property, since the market is a non-arbitrary reflection of the incomes and the preferences that determine property values. A property tax system based on market real estate values is just now becoming a reality in Slovakia. For economic and political reasons, a normally functioning real estate market, like the new market system generally, has been developing only gradually. Legacies of the socialist era and constraints on the privatization of property have not been the only roadblocks. Early in the transition, the Slovak central government preferred to ignore local self-government, postponing the dramatic progress that was to emerge later. Nevertheless, transition reform efforts launched after the Velvet Revolution were rather successful.

In 1992, without any formal consultation with the Slovak people, political leaders unilaterally decided to abandon the federation. Slovak leaders rejected any partnership with the Czechs, along with the Czech preference for a rapid transition to a market orientation.[2] Both before and after the opening of the reform era, the Slovaks were substantially less comfortable with departure from the order and security of the Soviet ways than were the Czechs.

As one would expect, however, the Slovak self-government and fiscal systems continued for a time to resemble those developed jointly with the Czechs before 1993. In the aftermath of the Velvet Revolution, both republics permitted municipalities to seek independence from some of the forced amalgamations of the previous era. Under socialist rule, local autonomy had largely been lost. From 1950 until 1989 decisions about the quality and type of public services were made by central governments in Prague and Bratislava. District governments existed during this period only to implement and facilitate the policies of the central government. Local government activity was also limited almost exclusively to such "state administration" activities.

We should remember that the economic transition of these countries followed hard on the heels of an era in which centralism had been rather absolute. Funding decisions had been based on political and party influence and evinced no close relationship to the needs or demands for public services, especially in the area of capital expenditures. Many local services were provided by the central government, *e.g.*, police, public utilities, fire protection and education. Socialist systems also provided a number of services rarely provided by western governments, including housing, which was produced and managed by the central government just as medical care was. Still, permitting only rather symbolic local government actually ran counter to Slovak tradition and inclination.

When the transition era began in 1989, local governments increased in strength and number. There are currently 2,781 of them and only a few have a population in excess of 50,000. The majority of Slovak municipalities have fewer than 500 inhabitants and many have less than 100. Comparing the number of municipalities per 10,000 inhabitants in Central and Eastern European countries reveals that Slovakia has significantly more cities than other countries in the region (except for the Czech Republic, of course).

The diminutive size of Slovak and Czech municipalities raises the question whether they have sufficient personnel and resources to administer local government effectively. Several supportive organizations have assisted in the development of a professional core of local public managers. About 125 of the cities in the Republic have created the position of City Manager to assist Slovak elected officials in their management functions. There is also an organization of city finance directors whose operations are similar to those of the Government Finance Officers Association in the United States.[3]

In Bratislava, the Association of Cities and Towns of Slovakia (*Združenie Miest A Obci Slovenska*, ZMOS) represents local governments in their interaction with the Central Government. This association is similar to those of numerous other countries; it has over 2,700 members and thus represents over 95% of Slovakia's municipalities.[4]

Decentralization Difficulties and the Property Tax in Transition Countries

Overcoming the legacies of central planning has proven to be a difficult and slow process.[5] And to say that local governments have often remained under-funded is a euphemism. Having no significant sources of independent funding, municipalities have had to wait for transfers and grants from central governments often struggling financially themselves. Central governments have generally been unwilling to abandon the centralist traditions of the previous era, which implies a policy preference for indirect and non-transparent taxes and for public services which provoke no substantive political opposition. Citizens of the localities have been disinclined to pay for public service provision; they have preferred funding through transfers from the center rather than from local taxation. Central governments are certainly not always unwilling to transfer resources to local governments, but they do have a penchant to retain control over the programs funded (both as a matter of reflex action and governance philosophy). As the transition began, the citizens of transition countries were not always opposed to rather sparse provision of public goods, since they anticipated a larger and more readily available assortment of the private goods they perceived to be common to market economies. Thus, they tacitly accepted the willingness of their local governments not to pursue any substantial efforts to charge fees or impose property taxes that could finance a greater abundance of public goods based on these independent sources of revenues. As a result, local officials were rarely forced to confront their constituencies with taxes to fund needed services.

When Czechoslovakia began to decentralize its fiscal system in 1990, legislation borrowed heavily from Western Europe, adopting taxes prevalent there without reference to whether they might prove optimal for transition countries, or whether that system could generate revenues sufficient for their needs. Since the end of communism, fiscal crises have been common in the transitioning countries and transfers of funds from the center have been insufficient to cover needs. Municipalities have been unable to enjoy genuine autonomy, because they lack sufficient sources of independent revenue.

The property tax, potentially a most important source of independent local revenues, remained strictly the nominal tax it had been under central planning. So it could not provide revenues at levels that would have promoted the autonomy of municipal governments. In the transition period, the four most important revenue sources for the Slovak Republic have been the familiar VAT, the personal income tax, corporate income tax, and an income tax on unincorporated businesses. All of these are collected by the central government and when they are shared with local governments, the problem of attached "strings" weighs upon municipal independence. Being dependent on these taxes (only the VAT produced revenues that were not shared with local governments) made the municipalities rather completely dependent fiscally on the central government.

After the Velvet Divorce, institutional inertia and preoccupation with other problems kept either republic from making substantive changes in their identical fiscal systems for some time. Ostensibly, pre-accession motivation provided by the European Union convinced the Slovak Republic to launch its recent, bold reforms. But before that time, the differences between the two fiscal systems were not great. The Slovak fiscal system was inclined less toward centralization than its Czech counterpart, although both countries emphasized a desire to achieve decentralization and to develop self-government (*samosprava*) for their municipalities.

Property Tax Rate and Base

Let us begin by reviewing the original transition system of inter-governmental finance that was already in place at the time of the Velvet Divorce. In this system, property tax policy was established by the central government and national legislation, but the day-to-day administration of the property tax was largely the domain of the Slovak municipalities. This contrasts with the Czech situation in which the central government collects the property tax and redistributes the revenues to the municipalities.

The taxation of land was based on the area of each individual parcel; similarly, the taxation of buildings was based on the number of square meters of a structure's floor space, including the land area under buildings. The tax rate was established separately for the two kinds of properties. In the property tax formula, adjustments are made for the location of land and buildings and for the particular utilization of the taxed unit. These modest, largely symbolic efforts to account for market characteristics are a genuflection to market valuation.

Of the eleven Slovak classifications of land, eight adjusted the assessed tax value for the quality of the land, which was estimated by the Ministry of Agriculture. The data collected on quality and potential productivity were remarkably detailed. Parcels of close proximity sometimes had substantial differences in estimated productivity.

In the transitional property tax system, basic tax rates ranging from one SKK to ten SKK per square meter (adjustable annually) were applied to six classes of buildings ranging from residential to industrial. The basic rate increased by .75 SKK for each floor. The tax on buildings allowed for two additional adjustments:

- Data on the size and type of a building could be multiplied by a population-based coefficient, that for the largest cities being greater than that for the smallest towns by a factor of 4.5.
- the local administrator could apply a final coefficient to the formula evaluating a building's location within the city. This could increase or reduce the tax bill by as much as 50%, giving city administrators a modest degree of flexibility in taxing for differential location qualities.

Prior to the New System, data on per capita land and building taxes revealed a pattern of significant revenue generation in Slovak municipalities. With increasing municipal size, per capita revenues from the tax on land declined continuously. For tax on buildings, per capita tax revenues increased continuously with a municipality's size. For larger cities, in other words, the tax burden was shifted more to structures. The implications were important: because real estate is a resource that cannot be removed from a region to avoid the tax. Of course, one can move away from a home or a business to avoid the additional costs imposed by such a tax. But the costs of doing so may be quite prohibitive as compared to the costs of avoiding other taxes, *e.g.*, an excise tax, by simply deciding not to purchase the taxed article. In any case, the real estate tax is underutilized in Slovak cities, keeping badly needed revenues below their potential. Moreover, although there was doubtless an intent that these taxes would be borne by businesses, in selling to local inhabitants the tax burden would ultimately be shifted to consumers.

The property tax law of the Slovak Republic granted explicit exemptions for state-owned, cultural, religious, and other such properties. An exempt owner of commercial real estate was taxed at a rate of about one third of that for commercial organizations. In the larger cities, exemptions have represented a substantial portion of the potential property-tax base, severely limiting the revenue capacity of the tax system. Implementing a tax system with capacity to generate a significant portion of the revenues needed for public services, then undermining the program with exemptions is clearly self-defeating.

In pursuit of a presumed objective to promote private housing construction, explicit, fifteen-year exemptions have been granted in Slovakia for newly constructed and recently renovated homes. Since the property tax base and rates of the transitional system did not produce a large yield, the incentive effect of this policy had little actual significance. Buildings restituted to former owners were also relieved of property taxes for a fifteen year period.

In the transition system, local governments were responsible for the collection of property tax data and the tax itself. They relied on the centrally operated cadastre for information pertaining, for example, to the ownership of properties. Specific information on land areas is available from the cadastre, but that agency is of limited help in identifying land. Since it does not record information on building size, it can obviously provide no assistance in assessing the tax on buildings.

In the Slovak property tax, the municipality/taxpayer relationship has been fraught with asymmetric information. Information laws have prevented the municipalities from verifying important information through the cadastre, rendering them dependent upon the taxpayer for information about taxable land and buildings. Despite this problem, the finance ministry has not publicized any concerns about property tax compliance. Restructuring the fiscal system to increase property tax yields in a substantial manner, however, is likely to produce a compliance problem. It should be no surprise, therefore, that changes in property tax laws proceeded only gradually in the transition era.

One might expect with an area-based tax that there will be a close relationship between the area of a plot or of a building and the tax revenues either would generate. Interestingly, this is not always the case in Slovakia.[6] The rubric "area-based" merely distinguishes this tax from one based on market value; it does not imply that other variables play no role in the determination of tax revenues. Certain classes of land are taxed far more heavily than others; building plots in all Slovakian cities produce more revenue per square meter than arable land or forests. The same holds for taxes on improvements – industrial and commercial buildings produce much greater revenues per square meter than agricultural or apartment buildings. Apparently, the heaviest tax burden has been on commercial and industrial activities, or on capital. Smaller towns and cities were inclined to tax building plots more heavily than arable land; probably seen as less productive of revenues than farm land, forests were subject to even less tax than the former.

This fairly extensive review of the early-transition, administrative property tax system has been designed to show what a stark contrast the New System introduced at the beginning of 2005 represents.

III. The Property Tax and Municipal Budgets in the Transition

If fiscal decentralization is to succeed, local governments must have access to an autonomous source of tax revenue, rather than be dependent upon the center for all revenues.[7] The visibility of the actions of local public officials, both elected and appointed, is generally greater than those of national officials. The accountability of such officials logically increases with that visibility,[8] and makes a strong case for local governance and local tax. The property tax embodies positive characteristics recommending it as a local tax. Since taxpayers cannot evade it by engaging in transactions beyond a relevant political border, it is *immobile*. The imposition of this tax is similar in effect to a lump-sum tax and does not induce changes in the level of utilization of the services of taxed properties. An excise tax can affect the quantity of sales, impacting the price of a product; in contrast, the property tax is considered a *neutral* tax. Since it provides fairly constant revenue yields regardless of the state of the business cycle, it is *stable*. Relevant taxpayers are more likely to have the means and the ability to pay the property tax, since they are home owners and property holders. This is in contrast to the case of highly popular yet regressive excise taxes, which generally represent a larger portion of lower than of higher incomes. If local public services improve and enhance property values, it is appropriate that the beneficiaries, the property holders, are required to pay for the increased value. Finally, as a direct tax, it is highly visible to taxpayers.[9] There is a large literature on fiscal decentralization that could be further cited here, but space considerations recommend brevity; let us simply note that the sources presented in this paragraph also provide substantial numbers of references explicating these now widely accepted principles of taxation.

The visibility of the property tax mentioned above is a two-edged sword, of course, which has both advantageous and disadvantageous effects. Since it is direct and visible, citizens and officials are less comfortable with the property tax than with indirect taxes.[10] Generally, both officials and citizens prefer excise taxes and local fees on a variety of transactions.[11] Too frequently local officials feel the heat of political problems the property tax can provoke.[12]

Fiscal decentralization can succeed only if the following three necessary conditions hold. First, there must be a correspondence between the expenditure responsibilities of local governments and the availability of financial resources. Second, incentives must be provided for subnational governments to mobilize their potential resources in the pursuit of autonomy. Third, the provision of transfers from the center must be transparent and based on objective and consistent criteria rather than negotiation and *ad hoc* bargaining.[13]

It becomes apparent that the implementation of an effective property tax regime requires close attention to institutions of governance. In countries where time and good judgment have permitted these institutions to develop properly, however, the rewards of political autonomy have been obtained by local governments.

Moral Hazard Problems in Property Tax Administration.

Principal/agent conflicts can be expected when the "ownership" (in terms of policy prerogatives rather than revenue receipts) and the administration of the property tax are shared by central and sub-national governments. Conflicts arising from incentive incompatibilities rooted in property-rights arrangements are common in transition countries, largely owing to the very divergent perspectives and incentives of local and central governments.

Moral hazard problems arise when agents pursue their own interests rather than those of the principal. In Slovakia, the property tax is the design of national policy, but it is collected by the municipalities themselves. There is no malingering in the collection effort of the local governments, since the revenues are badly needed. Since local authorities are in charge of the revenue-raising effort they cannot malinger and the citizens can monitor those officials simply by observing what kinds of revenues and expenditures they generate.

The significance of these institutional arrangements is apparent when contrasted to the Czech case, where the local government basically acts as the principal and central government acts as the agent. The center both designs policy and collects the tax, so that the local government principal can receive such property tax revenues as the central agent's collection efforts provide. Not being in a position to monitor the collection effort, sub-national governments can only hope that the center will exert significant effort. The data show that revenue from these taxes is in fact sub-optimal since the center lacks incentive to exert the effort and resources required to increase the yield. Smaller property tax revenues, however, can easily be offset by greater transfers from other taxes or revenue sources. This is certainly the case in the Czech Republic, where relative to other transition countries the central government has not been a poor provider.

The Finance Ministry would argue that the local governments do not attempt to achieve anything like optimal receipts, since they set their property tax coefficients such that their receipts are only about half what they could be.[14] But this should be expected from the structure of incentives. Why should the locals push for greater property tax revenues when they can neither collect the revenue nor monitor the collection? Why irritate local taxpayer acquaintances, friends and neighbors with property tax when other funds will be provided. The fact that strings are attached to such funds is nothing new; local officials have lived with such conditions previously.

It is also a form of moral hazard when local government officials, acting as (insufficiently monitored) agents for the citizenry, the true "principal" in a democracy, fail to exert honest effort to produce the revenues required for the public services citizens demand. Once municipalities become financially dependent on the central government, they become quite willing to avoid full financial responsibility by tacitly partnering in extant principal/agent arrangements. They become comfortable in permitting the center to take all the responsibility for raising municipal funds, thus avoiding any potential political heat a serious property tax might generate. It is easier to conform to central guidelines, mandates and directives than to take a stand for local preferences that clearly differ from those of the center.

Still considering the Czech case, other moral hazard issues also emerge with central government revenue transfers. For example, if the distribution of resources is badly skewed across subnational governments, or if subsidies encourage local governments to pursue activities of high priority to the center, fiscal redistribution becomes very tempting.[15] But transfers from the center may simply offset revenues that could have been raised locally. If the central government compensates the municipality for the property tax funds it has failed to collect, local officials can act less transparently.

Because the Slovak central government was initially far less generous in providing transfers, Slovak municipalities had to take advantage of the opportunity to collect property tax revenues for themselves. From the 1960s until the end of central planning, Czechoslovakia's local governments derived roughly 60% of their total receipts from subsidies. From around 1984, however, central government subsidies began to decline. This trend extended into the transition. Although there was a brief expansion of transfers from 1990-1992, the decline continued. After the mid 1990s, subsidies represented no more than about 25% of the total receipts of Czech and Slovak municipalities.[16]

The data for the transition period reveal the relevance of these moral hazard considerations. They are reviewed comprehensively for the period of transitional finance in the two republics from the end of central planning to 2000 by Bryson and Cornia.[17] They show Slovakia's municipalities to be substantially poorer than those of the Czech Republic. After the Velvet Divorce in 1993, Czech municipal budgets were more than twice as large as those of Slovakia. This was at least partly a result of *per capita* differences in grants from the respective central governments. By the end of the period, per capita public services expenditures for Czech citizens were three times greater than those for their Slovak counterparts. Local budgets in Slovakia were only about 14% of the total national budget, while those of the Czech Republic ranged from one quarter to just over one-third of the national budget.

The difference in municipal grants shows why Slovak municipalities were comparatively quite poor. Grants in Slovakia ranged from 1.5 billion Slovak crowns (SKK) in 1993 to 1.1 billion SKK in 1994. Central government grants to the Czech municipalities ranged from just over 27 billion CK in 1993, to 59.5 billion CK in 1996. (One should keep in mind, of course, that the population of the Czech Republic is twice as large as that of Slovakia, but also that the Czech crown will purchase from 1.2 to 1.25 Slovak crowns)

Interestingly, in the two years (1991 and 1992) preceding Slovak independence, Prague provided grants of 7.9 billion and 2.4 billion crowns respectively for Slovak municipalities. Thus, independence from the Czechs turned out to be a shock for the municipalities of the Slovak Republic, for it separated them from the Czech central budget. In that period, Slovak municipalities also learned that Mečiar politics separated them from the Slovak central budget. Prime Minister Vladimir Mečiar, preoccupied with what the political opposition termed the "family privatization" of Slovak industry, had no interest in helping solve the financial problems of Slovak towns, cities, and regions. They knew they could expect no significant transfers or grants from Bratislava.

Since they had far less substantial financial support from the central government, Slovak municipalities were much more diligent in their efforts to harvest property tax yields and the property tax represented a significantly larger share of the total revenues of local governments. Using data from the finance ministries of both republics, Bryson and Cornia[18]calculate that for the years 1993 to 2001, the real estate tax in Slovakia provided from roughly 11 per cent to 18 per cent of the revenue for municipal budgets (see Table 1). On average, property tax revenue represented a share of about 15% of the total receipts of Slovak municipalities. In the Czech

Table 1

Real Estate Tax as Percentage of Municipal Budget Revenues

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Czech Republic	4.80	4.74	4.01	3.93	3.60	3.43	3.42	3.28	3.68
Slovak Republic	10.45	13.81	12.57	14.73	15.60	16.97	18.81	17.89	16.00

Source: Bryson and Cornia, 2004.

Republic, with larger municipal budgets, the real estate tax ranged from 3.28% of total municipal revenues up to a maximum of 4.8%. Although property tax revenues were relatively small in 1993, the trend was toward even smaller receipts thereafter. The Slovak municipalities clearly demonstrated greater effort in collecting the property tax. Table 2 demonstrates that the municipalities of the Slovak Republic enjoyed a much smaller share of total national budget receipts. Whereas the Czech municipalities received a share of around 30% of total governmental receipts, Slovak municipalities received only around 6%. Given their relatively less favorable financial situation, it is no wonder that Slovak municipalities attempted more diligently to harvest greater property tax revenues.

Table 2

Local Budgets as a Percentage Share of the National Budget

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Slovak Republic	5.89	6.82	6.46	7.70	7.61	6.91	5.67	6.19	6.95
Czech Republic	25.45	28.78	30.35	35.29	29.79	30.34	30.16	31.98	26.26

Source: Bryson and Cornia, 2004

Both republics struggled in the transition era with periodic fiscal crises, the result of which was often a reduction in municipal revenues. The Czech government was relatively good about avoiding unfunded mandates, but it retained strong influence over the use of centrally provided funds, thus inhibiting local autonomy. The Slovak municipalities had little to work with, but seemed more independent with what revenues they did receive.

IV. Beyond the Transition Era: Emergence of a New Fiscal System in Slovakia

Foundations of a new system were laid in Slovakia in the period preceding accession to EU membership in May, 2004. The emphasis of the EU during that stage was not on fiscal decentralization for the two republics, but on a related action, *i.e.*, the reform of public administration.

In marked contrast to the Slovak case, which we will review momentarily, the Czech Republic was interested in little more than a honing of organizational arrangements in its reform of public administration. The emphasis was on the creation of the new regional level of government. The goal of the reforms was to modernize central administration and provide "territorial public administration" to improve the quality of the public sector's products as a whole.[19] Regional governments are ostensibly to "bring state administration to the people" (*přiblížit státní správu občanům*), involving rank and file citizens in subnational governance processes. But the question whether the reform of public administration could effectively serve as a *substitute* for municipal autonomy, *i.e.*, for fiscal decentralization, was not really addressed.

While pursuing the mechanics of such organizational questions, the Czech Finance Ministry and political apparatus were busy developing a more modern social welfare state than the well-known version of the central planning era. The Soviet system provided pensions and health care and wages for a large national bureaucracy, of course, but these were all on the cheap. Health care costs were very low because the wages of health care personnel were very low and high tech equipment was not an important part of the system. Since the transition began, two processes have been proceeding simultaneously: on the one hand, costs have begun to rise dramatically; on the other, the government has been trying to reduce the "entitlement costs" of the communist system of public goods provision (*e*.g., providing public transportation and housing at nominal costs). But in keeping with the newly adopted model of Western Europe, the higher costs of the pensions, health care and higher salaries and wages of government workers, things all vastly more expensive than they had been under communism, the central government began to run large budget deficits and accumulate a growing burden of debt. It has long since recognized the impossibility of coping with an indefinite expansion of public expectations and commitments and is now desperately seeking ways to increase national revenues. The reality of the macroeconomic situation is that it will be necessary to reduce expenditures in the next few years. Unfortunately, this appropriate, even essential focus on the national budget has at the same time removed the focus of the Finance Ministry and the political system from the municipal situation and the process of fiscal decentralization.[20]

Decentralization and the Decline of State Administration in the Slovak Republic

In pre-reform Slovakia, as in the Czech case, *samosprava* (local self-government) was performed by elected municipal officials. In a separate office, municipal "state administration" activities and programs were performed by agents of the central government. An inference as to the resources committed by the central government to finance and administrate the local affairs assigned to the center constitutionally can be made from employment figures. Before the reform of public administration in 2000, state administration employed 287,817 Slovak citizens. That represented 84.7% of total government employment. Only 52,100 were employed in self government at the local level, which was only 15.3% of total government employment. After implementation of the reforms, employment in state administration declined from c. 85% to 37%, while the number employed in local self-government increased from c. 15% to 63%.[21] In 2001 the total expenditures of local offices of state administration (in other words of the central government for their local jurisdiction) were nearly twice as high as those of the local governments themselves. Perhaps without external pressure from the EU, Slovak public officials would still not have recognized the necessity for a reform of their centralized institutions. From their perspective, "state administration" represents little more than the state's appropriate resolution of the problem of very small municipalities being unable to provide for their own management.

The Reform of Public Administration: Foundation or Superstructure of the New System?

With the encouragement of the EU, Slovakia gave much more free play to political players, the more progressive elements of the post-Mečiar era, who were very inclined to move toward market decentralization. The reform of public administration and the New System were almost simultaneous phenomena. The former introduced regional government and other institutional changes and the New System changed the taxation and finance systems, both being complementary developments building upon the efforts to achieve fiscal decentralization.

The conception and design of the Slovak reform of public administration was introduced by an official paper[22] listing the areas that would continue to be performed by local state administration *after* the reform. The central government will accordingly continue to provide for local police, criminal investigation, military administration, the state veterinary office, the state hygienist office, the environmental office, the cadastral office, the land and forest office, the social office and the tax office. This is an imposing list of activities for which Slovak municipalities and regions will continue to have neither responsibility nor managerial prerogatives. As explained earlier, the Slovak municipality, within its range of ceded responsibilities, received little funding but rather liberal managerial authority throughout the transition era.

The Slovak national government intended for this situation to change and the reforms have been bringing about the desired change in a striking manner. Reforms are also moving the municipalities toward substantive change. The Slovaks recognize what such change requires and that a modification of organizational forms alone cannot be an effective substitute for fiscal decentralization. Effective governmental organization and fiscal decentralization are policy complements rather than substitutes. The Slovak central government conceded[23] that decentralization of public affairs must include "decentralization of functional responsibilities, decentralization of finances, decentralization of political power…" The complex process of decentralization is only effective "if it is implemented in all three dimensions at the same time." The public administration reform is comprised of four processes: changing the territorial arrangement, reforming extant institutions and creating the new regions, decentralizing public finance powers and competencies and modernizing the system's legislative framework and management. One should keep in mind that the fiscal reforms to be discussed in the next section were closely related to the overall reform effort pursued over a period of several years. Nižňanský and Pilat cogently present the entire transition era as a pursuit of multi-front reform.[24] From the perspective of this paper, the new system's ramifications for local finance are of particular importance.

Structuring the New System

While they were reforming, Slovak leaders wanted more than marginal organizational change. They considered their economic future imaginatively and were prepared to implement significant additional adjustments. At the same time, one should not overlook the fact that Slovak economic development in the transition era has sometimes been stronger in relative terms than one would have supposed, especially considering its political situation through the Mečiar era.

The initial economic successes Slovakia experienced in its independence era were due in large measure to a mini-boom in exports. Prosperity and expansion in Western markets provided demand, and Slovakia successfully made the transition from its links to the old CMEA markets to the important EU markets. Sensible monetary policy kept inflation within bounds and although development was spotty, leaving some regional unemployment levels high, progress was fairly steady.

The introduction of reforms around 2000 came after the initial momentum of independence had waned. The Slovaks were now ready to introduce some striking policies, including a "flat tax"[25] also adopted in Russia, the Baltics and elsewhere. The main provisions of Slovakia's 19% flat tax have been widely discussed; the Finance Ministry has spelled out the details of the New System,[26] but its main provisions certainly deserve our attention here. From a general perspective, the principle objective of the reform was to achieve fairness and simplicity while eliminating double taxation.[27] The key provisions of the New System at the national level were: introducing a flat rate of income tax at 19%, both for corporate and personal incomes; adopting that same percentage rate for the value-added tax (VAT); increasing consumption taxes to slightly above minimum required EU rates; abolishing taxes on dividends, on the assignment and transfer of real estate, and on inheritances and gifts; introducing a higher personal deduction for the taxpayer and a tax credit for children; abolishing many exemptions, deductions, and distortions on efficiency in income taxation.

Here it should be said that the common level of taxation would appear to be regressive – high and very high incomes being required to pay no greater income share in taxation than very low incomes (although the Slovak Republic modifies this by allowing a level of non-taxable income before the 19% tax applies). The basic justification is expressed well by Krajčír and Ódor,[28] who site the unfortunate rule in economics that "the size of the cake does depend on the manner in which it is sliced.. . . people lose more of the motivation to work and to engage in entrepreneurship when each additional koruna earned is taxed heavier than the previous koruna."

Of greater concern are the design and impact of the New System at the level of subnational governments. One of the main changes initiated on January 1, 2005 as announced by the Ministry of Finance[29] was the elimination of the former method of making an annual allocation announcement in and through the State Budget Act as to the amount of tax revenues to be transferred to the municipalities. This process was "unstable" and did not permit the cities and towns to engage in effective planning until after the announcement had been made. The new system is expected to stabilize the flow of revenues to local governments and give them an opportunity to engage in multiple-year financial planning.

The Finance Ministry also announced that the personal income tax had now become an "own" source of revenues for both regions and municipalities. Of the total revenue from this tax, municipalities were henceforth to receive 70.3% and the regions 23.5%. Only 6.2% of its revenue was to accrue to the national budget.[30] The basic reform idea was that henceforth roughly one third of municipal revenues would come from personal income tax transfers, one third would come from grants from the central government and the European Union and one third would come from municipal own revenues, *i.e.*, from the property tax, local user fees, and from privatization of publicly-owned assets.[31]

Local governments also received the right as of January 1, 2005 to set "tax rates" (a term applied, interestingly, not only to the real estate tax, but apparently also to the very limited number of user fees and local taxes already extant) and to introduce new "taxes." The municipalities received full discretion to adjust those old system rates and apply exemptions according to their own preferences.

These are measures of genuine fiscal decentralization, but it is potentially even more important that the municipalities were also given policy control over the property tax. The applicable legislation pertaining to real estate taxation, No. 582/2004 coll[32] came into effect in January 2005. It transfers the responsibility for establishing binding regulations on rates of taxation for land, buildings, apartments and non-residential premises to local self-government bodies. They are to be set according to the specific local conditions of municipalities. The law thus voids the utilization of centrally-established coefficients related to the specific use and square-meter area of the taxed land and structures.

One perspective on the role of the property tax in the New System[33] is that it was motivated in part by the realization that the share of revenues from property taxes has been considerably lower in the Slovak Republic than in numerous OECD and EU countries. As a result, the ministry intended to strengthen that tax. First, the state denied itself any right to specify the uses to which revenues from the real estate tax are to be put. Also, the donation tax, the inheritance tax and the real estate transfer tax were eliminated as a part of the tax reform.[34] The objective of the new Act on Real Estate Tax was to create a legal basis for transparent taxation of real estate based on market valuation.[35]

For the moment, the central government does not envisage strong increases in revenues from the real estate tax. With the passage of time, it will probably be possible for municipalities actually to implement increased property tax rates of their own (as the legislation asserts). It is interesting that the Ministry's own Financial Policy Institute has noted that "the planned valuation of real estate for the purposes of calculating real estate tax is also a step in the right direction; however, the question remains of whether the related administrative costs will increase so much as to result in a net loss for the public finances."[36] Thus, it would make sense to cover the relevant administrative costs by permitting the substantive property tax increases that appear now to be officially legal.

The Transition within the Transition: Applying the New System

It should be observed that in the short time since the inception of the new system, the property tax has not become a more important source of revenue. There have been no plans to increase revenues from this source in budgets to 2007. Early in the year of the inception, it appeared that municipal self-government had gained by these new developments. At the same time, resources seemed no less scarce at the municipal level. As the changes in rules came into effect, the larger cities felt that they gained less through the change than some of the smaller ones, but institutional change in resource allocation often produces winners and losers, requiring some modifications or institutional accommodation to the changed system.

The Government of the Slovak Republic[37] made its own statement of policy intent promising to protect the interests of taxpayers. It promised it would increase the tax revenues of municipalities and define the tax revenues of regions in such a way as to assure that the tax burden on individual taxpayers and businesses would not be increased. This was to be accomplished by the creation of a special law "containing the definition and structure of tax revenues for municipalities and higher territorial units and criteria for their redistribution to municipalities and higher territorial units' budgets." This intended assurance does little for the proponent of fiscal decentralization, since that concept seems threatened when central government defines tax structures for subnational governments.

The Finance Ministry perception[38] was that the reform of public administration and the changes connected with the accession of Slovakia to the European Union were the driving forces behind the creation of the new, comprehensive legislative framework developing the budgetary process for the public sector. The Finance Ministry documents evince a far less distinct tone of centralism.

V. A Tentative Assessment of Reform Effects

The new system as applied to local governments has been in the implementation phase for only about two years at the time of writing. It is too early to say how effective the new system will be, although it is clear that the effect will depend both on the macro impact of the new, national tax system on the national budget and the ability of the municipalities to leverage their new policy prerogatives into enhanced tax receipts.

Since the initiation of the new tax system at the national level late in 2003, Slovakia's economic performance has improved. The improvement has been the focus of international discussion. The Republic's recent growth rates have been strong at 5.5% in 2004, finishing the year at 5.8% for the final quarter of the year.[39] Growth in 2005 increased beyond expectations to 6%, coming at a period of low growth throughout Europe generally. The IMF[40] and OECD[41] have found Slovakia's strongly increased output expansion laudable and note that the country's fiscal and external imbalances have declined considerably in recent years. The increased transparency and greater incentive compatibilities, usually attributed to the reforms, have helped improve the business climate and attract foreign direct investments. Real GDP expanded by 4.5 percent in spite of a contraction in domestic demand in 2003. But increased activity in the domestic sector and accommodating macroeconomic policies permitted real GDP growth beyond expectations in 2004 and 2005. Further progress is still badly needed; employment gains have been uneven across sectors over the period described, and unemployment remained very high at 17.75 percent.

The World Bank agrees with this assessment,[42] but observes the need for the Slovak Republic

- to achieve fiscal consolidation supportive of appropriate public finance management,
- to complete ongoing reforms in health, pensions, and public finance,

- to develop income levels convergent with those of Europe by achieving trade competitiveness in EU and world markets, and
- to reduce poverty and unemployment, partially a function of Roma marginalization and the east-west development gap in the country.

In the long term these achievements may be feasible if Slovakia can continue its currently strong economic performance. Data from the Statistical Office confirm the recently strong growth, but it is interesting to put it into temporal context. Table 3 indicates quarterly GDP for 2003 and 2004; Table 4 provides greater temporal perspective by showing annual GDP growth from 1993 to

Table 3

Slovakia GDP, 2003, 2004

(Mill SKK)

1. Q	272,980
2. Q	300,801
3. Q	309,682
4. Q	317,733
Year 2003	1,201,196
1. Q	308,722
2. Q	330,367
3. Q	336,791
4. Q	349,606
Year 2004	1,325,486
1. Q	332,539
2. Q	357,631
3. Q	365,505
4. Q	384,117
Year 2005	1,439,792

*Source: Ukazovatele Ekonomickeho Vývoja, Hrubý domáci produkt a Štátny rozpočet, Štatistický úrad Slovenskej republiky, 2006. See http://www.statistics.sk/

2004 in both current and constant prices, the latter removing the inflationary bias to provide an indication of real growth rates *per annum*, as indicated in the last column of the table. These numbers show the recent, positive economic performance, but are not unequivocal regarding growth as a response to the stimulus provided by Slovakia's recent New System of national and local

Table 4

Slovakia GDP Growth, 1993-2004
(Constant Prices, 1995=100)

Year	Current P's	Constant P's	Growth over previous yr.
1993	411,366	512,849	
1994	495,649	544,674	6.20
1995	576,502	576,502	5.84
1996	638,449	611,935	6.15
1997	712,679	640,151	4.61
1998	781,437	667,107	4.21
1999	844,108	676,919	1.47
2000	934,079	690,697	2.04
2001	1,009,839	716,845	3.79
2002	1,098,658	749,937	4.62
2003	1,201,196	783,406	4.46
2004	1,325,486	826,493	5.50
2005	1,439,792	876 283	6.02

Source: *Ibid.*, and own calculations

finance. Nor can they yet show, more specifically, that recent growth performance is a response to tax reductions. Since economic growth had been strong in the early transition period to about 1999, the return to over four percent growth in 2002 could be interpreted simply as some kind of economic recovery. Although European economies were largely stagnating in the slower years of Slovak economic growth from 1999 through 2002, and the U.S. recession was going on, it is not likely that this slowdown was simply cyclical. Such an explanation, however, might explain why Slovakia, in an economic environment influenced by the stagnation of some important EU players, likewise entered into a slower growth phase. It does not explain why a simple recovery beginning in 2000 and 2001 restored the Slovak Republic to its previously high growth rates in the stagnant environment responsible for the slowdown. That leaves it necessary to consider the notion that growth over the past two or three years was a function of economic stimulus arising from reduced taxes and increased FDI in Slovakia. The Slovaks see the relationship between the "flat tax" and FDI investment as stemming from the fact that the tax reform should be a catalyst for other structural reforms no less important to the foreign investor, who is particularly interested in the improved business milieu.[43]

Crediting the New System with ending the period of sluggish growth, however, does not explain what it was that made the country perform well in the earlier transition period under the old fiscal system. Such an explanation might lean on Slovakia‘s reaping the benefits of a successful shift from trade with CMEA markets to EU markets, along with positive economic conditions and expectations in the region during the early transition period. These things were followed by a boom in the U.S. economy and the stimulus that phenomenon provided the world economy in the late 1990s.

But our concern here is less with the macro performance of the Slovak economy in this period than with the budget performance. It is of interest to the present study that growth in the macro economy has not yet translated into higher general budget receipts. From the perspective of the Slovak government, the rationale for the New System would have to be that the elimination of some taxes and the reduction in tax levels should provide growth stimulus sufficient to offset the reductions. The Finance Ministry web site indicates that targets for individual types of tax revenues after the implementation of the reforms were generally met. Overall, however, examining accumulated revenues and expenditures makes it appear that the growth of revenues has not matched government expenditures or general growth.

The third column of Table 5 shows accumulated monthly receipts, while accumulated expenditures are shown in column four. A simple calculation of the growth of budget receipts and budget expenditures yields results that are interesting to compare with GDP or general economic growth. To make the measurements comparable, the data are taken in current prices. We observe that government revenues from 2003 to 2004 grew at the rate of only 4.01%, while GDP grew at the rate of 10.35%, again in current prices. (Without adjusting to constant prices, we overstate growth proportionately for the general economy as well as for budget receipts and expenditures in the period in question, some of the growth being accounted for simply by price increases. So budget receipts did not grow as rapidly as the economy as a whole, reducing the advantage of the rapid economic growth from the perspective of the public sector. It is important to note, as the Slovak Republic currently struggles with national deficits and debt, that policymakers managed to make the growth in expenditures (8.21%) more in line with the increased GDP growth, although it was still a little less than the growth of the economy. Whether this rate of growth of expenditures seems justified or appropriate, it still contributed to deficits and debt, since it exceeded the more modest growth rate of revenues of only 4.01%.

Table 5
Republic of Slovakia: Budget and GDP Growth, 2003-2005*

Year	Mo	ΣRevs	ΣExpends
2003	1	22,300	24,000
2003	2	31,800	44,800
2003	3	46,400	64,200
2003	4	67,008	91,600
2007	5	79,100	109,600
2003	6	100,900	128,600
2003	7	127,700	158,800
2003	8	147,100	180,200
2003	9	163,400	201,100
2003	10	186,800	227,200
2003	11	203,600	246,400
2003	12	233,100	289,000
2004	1	21,031	23,689
2004	2	36,394	40,818
2004	3	66,945	65,770
2004	4	98,132	92,409
2004	5	109,176	111,446
2004	6	120,695	133,150
2004	7	139,126	157,677
2004	8	153,715	178,501
2004	9	172,840	202,262
2004	10	195,858	226,386
2004	11	213,675	247,753
2004	12	242,444	312,732
2005	1	24,644	20,334
2005	2	39,789	40,897
2005	3	65,0463	62,246

(Millions SKK, Current Prices)

Source: Plnenie Ŝtátneho Rozpočtu, Ukazovatele Ekonomickeho Vývoja, , Štatistický úrad Slovenskej republiky, 2005. See http://www.statistics.sk/

V. Summary and Conclusions

The relatively strong transitional beginning Slovakia enjoyed did not translate into well-being for the local governments. In this period characterized as one of fiscal decentralization, municipalities had to work very hard to generate local revenue, which was done mostly through energetic collection of property tax revenues, the imposition of centrally-specified, local user fees and the privatization of state-owned assets transferred to municipalities at the outset of the transition period.

The reforms of public administration, undertaken in the period prior to Slovakia's accession to the European Union, were followed closely by the adoption of a New System of national and local finance that caught wide attention because of the elimination or reduction of many of the country's taxes, both national and local, and the adoption of a "flat tax," or a common rate of 19% for corporate and personal income tax, as well as for the VAT.

It was hoped that this new system would provide encouragement for investment (both domestic and foreign) and stimulate economic growth. The economic growth rate did increase substantively, which was unusual given the sluggish conditions prevailing in most of Europe at the time. One might postulate that the growth of the past two or three years is just a return to an earlier, normal level of performance. But that explains neither why the early transition growth rates were not maintained nor why they were recently resumed. It seems reasonable, as was suggested in the previous section, that the original growth period ended with the incentive incompatibilities of the old finance system, the loss of early transition momentum and the lack of dynamism in Europe in general. Growth momentum was regained when reforms were given renewed vigour early in the present decade. And growth is expected to continue. Prognosis updates performed by the Ministry of Finance confirm that the economy of the Slovak Republic can achieve high growth in the next few years at an average annual rate of about 5.4%. The growth is believed to be sustainable because of the qualitative economic changes achieved in terms of total productivity growth. Expected GDP growth for 2007 exceeds the 6% level in 2005 because of the expected economic growth of important trade partners of the Slovak Republic, because of the effects of FDI inflows, and because of the expected impacts of greater transfers from EU programs.

The recent local government provisions of the New System are bold and consistent with the changes made at the national level. They do in fact provide municipalities with greater opportunities to find their own way financially, which will enhance their political autonomy. Nevertheless, the local governments remain fiscally challenged. As the state assigned the lion's share of personal income tax receipts to local governments, it simultaneously transferred the responsibility to them to fund a large proportion of the education programs previously funded nationally. But greater opportunities were also provided for the subnational governments (regions had been added to territorial *samosprava*) to act with greater fiscal autonomy. The state will not permit municipalities to expand local property tax efforts in a manner that will increase the overall burden of Slovakia's taxpayers, but municipalities do have opportunities to function much more independently. The use of such independence could ultimately open the way for a substantial, badly-needed increase in the revenue-generating capacity of subnational governments in the future.

Endnotes

[1]The Republic of Slovakia has a population of 5.364 million. Its surface area of 49,012 square kilometers is roughly 62% of the size of the Czech lands of Bohemia and Moravia. Slovak population density approximates that of Portugal, Hungary and France, with significantly more space for the average Slovak than that available for the average Czech. Slovakia has 109 citizens per square kilometer of territory, the Czech Republic has 131, Germany 228, France 105, Russia 9, U.S. 28, and Europe 32. See 'Medzinárodné prehl'ady,' *Štatistická Ročenka Slvenskej republiky 1997* (Bratislava: Štatistický úrad Slovenskej republiky, 1997), pp. 627f.

[2]See Ernest Valko 'Legislation,' in *Global Report on Slovakia: Comprehensive Analyses from 1995 and Trends from 1996*, ed. by Martin Bútora and Péter Hunčík (Bratislava: Sándor Márai Foundation, 1997), pp. 75-86. Valko tells us that the new Slovak constitution 'establishes the possibility to stop...the process of privatization and/or restrict business activities and to reverse various measures that already had been taken in this respect (p. 76).'

[3]Both groups offer regular training and professional development. They strive to influence policy relative to intergovernmental financial relationships and local service provision. The existence and activities of both groups appear to have been positively influenced by the former USAID Mission in Bratislava, which assisted in establishing local administrative infrastructure in Slovakia and in training managers of local governments.

[4]The organization participates in drafting and reviewing legislation on local government administration and policy. ZMOS has also organized a foundation to train city employees to perform local government functions.

[5] See Phillip J. Bryson and Gary C. Cornia, 'Public Sector Transition in Post-communist Economies: The Struggle for Fiscal Decentralisation in the Czech and Slovak Republics,' *Post-Communist Economies*, 16, 3, September, 2004, pp. 265-283.

[6] See Phillip J. Bryson and Gary C. Cornia, 'Land and Building Taxes in the Republic of Slovakia,' in Joan Youngman and Jane Malme (eds.), *The Development of Property Taxation in Economies in Transition: Case Studies from Central and Eastern Europe*. (Washington, D.C., The World Bank, 2001), pp. 51-66.

[7] This point is well established by Richard M. Bird, Robert D. Ebel & Christine I. Wallich. 'Fiscal Decentralization: From Command to Market,' in Richard M. Bird, Robert D. Ebel & Christine I. Wallich (eds.), *Decentralization of the Socialist State: Intergovernmental Finance in Transition Economies.* (Washington, D.C., World Bank, 1998), pp. 1-67.

[8] See Jennie I. Litvak, Richard M. Bird & Junaid Ahmand. *Rethinking Decentralization in Developing Countries,* (Washington, D.C., World Bank, 1998).

[9] See Richard A. Musgrave,. 1993. 'Who Should Tax, Where, and What?' in Charles E. McLure, Jr. (ed.) *Tax Assignment in Federal Countries*, (Canberra: Centre for Research on Federal Financial Relations, Australian National University, 1993), pp. 2-19 and Wallace E. Oates, 'Taxation in a Federal System: The Tax-Assignment Problem,' *Public Economics Review*, 1:1, 1996, pp. 35-60.

[10] See Joan M. Youngman and Jane H. Malme. 1994. *An International Survey of Taxes on Land and Buildings*, (Kluwer Law and Taxation Publishers, 1994).

[11] See Andrei Shleifer and Robert W. Vishny. 1998. *The Grabbing Hand: Government Pathologies and Their Cures*. (Cambridge Massachusetts, Harvard University Press, 1998).

[12] See Anne Paugam, 'Ad Valorem Property Taxation and Transition Economies.' *ECSIN, Infrastructure Unit Europe and Central Asia Region*, World Bank, Working Paper No. 9, 1999).

[13] See Bird, Ebel and Wallich, *op. cit*, p. 59.

[14] Finance Ministry interview in March, 2005.

[15] See Richard A. Musgrave, 'Approaches to a Fiscal Theory of Political Federalism.' In *Public Finance: Needs Sources and Utilization*, National Bureau of Economic Research, New York, (Princeton: Princeton University Press, 1961), pp. 97-122.

[16] See Jitka Pekovà, 'Obce a dotace,' *Obec & Finance*, 1, 1, 1996, pp. 28-31.

[17] See Bryson and Cornia, 2004, *op. cit.*

[18] *Ibid.*

[19] See Pavel Bureš, *et al. Public Administration Reform in the Czech Republic*, (Czech Ministry of the Interior, Prague, 2002), p. 8.

[20] I was able to verify this in a finance ministry interview in March of 2005, where it was reported to me that '*vubec nic*' (absolutely nothing) was occurring in the realm of fiscal decentralization or the property tax, given the extreme concern with the national budget deficits. At that time, the Finance Ministry was also in the process of conducting an 'audit' of personnel and personnel functions as a part of the intent to downsize the finance ministry from c. 1,400 to 1,000 staff members.

[21] See Viktor Nižňanský and Jaroslav Kling, 'Verejná Správa' (Public Administration). In *Slovensko 2002 Súhrnná správa o stave spoločnosti Verejná správa,* (Bratislava, 2002), p. 252.

[22] See Government Office of the Slovak Republic. *The Concept for Decentralisation and Modernization of Public Administration*, Bratislava, 2000.

[23] *Ibid*., p. 4.

[24] See Viktor Nižňanský and Jaroslav Pilat, 'Public Administration Reform in the Slovak Republic – Managaement of the Process.' In Gábor Péteri (ed.), *Mastering Decentralization And Public Administration Reforms In Central And Eastern Europe*, (Local Government and Public Reform Initiative Studies, Budapest, 2002), pp. 215-232.

[25] See Miroslav Kňako, *Daňová reforma,* (Bratislava, 2002). Available online at http://www.mesa10.sk/vs/index.asp.

[26] See Ministry of Finance of the Slovak Republic, 'The Fundamental Tax Reform,' December, 2004. Online at http://www.finance.gov.sk/mfsr/mfsr.nsf/0/3B119C0688AAB2E7C1256F6B0044EC34?OpenDocument

[27] On this point, see the elaboration of Ivan Mikloš, *19% in operation – the first year of the tax reform*, Ministry of Finance of the Slovak Republic, Jan. 18, 2006, online at http://www.finance.gov.sk/EN/Default.aspx?CatID=10&id=12:

> The Slovak tax reform has not brought about anything radically new as far as the principles on which it is based are concerned. In fact, quite the opposite could be stated in the sense that it is only the fulfilment of the basic tax principles, as adumbrated on the first pages of every textbook on tax theory. These are: simplicity, neutrality, efficiency and equity. A further principle is the transfer of emphasis from the taxation of goods and creation of services (revenues) to the taxation of consumption. But the reality is that practice in this area is dramatically different in most of the world's countries. The causes lie in particular in the gradual but successful penetration of statism, interventionism, subjectivism, populism, group interests and similar effects into economic policy and in the subsequent, politically very difficult, process of the removal of the distortions they cause in the tax system.

[28] See Zdenko Krajčír and Ľudovít Ódor, *First Year of the Tax Reform, or 19 Percent at Work* Financial Policy Institute, (Ministry of Finance of the Czech Republic: Bratislava, 2006), online at http://www.ministerstvofinancii.sk/EN/Documents/IFP/Publications/TAXREFORM_EN.pdf See p. 8.

[29] See Ministry of Finance of the Slovak Republic, Up*ated Convergence Programme for the Slovak Republic covering the period 2004-2010,* November, 2004. Available online at

http://www.finance.gov.sk/mfsr/mfsr.nsf/0/fb3a49ff2fdb48eec1256e9500275db5/$FILE/Slovak CP2004UPD.pdf

[30] *Ibid.*, p. 31.

[31]This was pointed out to me by officials of ZMOS, the Slovak Union of Cities and Towns in Bratislava in March, 2005.

[32] See Parliament of the Slovak Republic. 'The Act on Local Taxes and Levies on Municipal Waste and Minor Construction Waste, No. 582/2004 Coll.' *Collection of Laws,* 2004.

[33] See note 31. The perspective is that of the Economics Director of ZMOS on the above-mentioned occasion.

[34] See Dušan Zachar, *Reforms in Slovakia, 2003-2004: Evaluation of Economic and Social Measures*, INEKO, Institute for Economic and Social Reforms, July, 2004, p. 38. Available at http://www.ineko.sk/english/publications_heso_2003_2004.pdf

[35] In a single, stand-alone sentence, the Government of the Slovak Republic addressed the issue of the developing real estate market, the values of which would replace the old coefficient system. It said 'Depending on how realistic real estate prices become, which is a basis for the taxation of property transfers, the Government will revise the current property tax rates and adopt corresponding solutions to unify them.' If prices are 'realistic,' the government will assure realistic, unified rates. This government statement does not appear to reflect the current stated Finance Ministry policy of letting municipalities work out their own property tax rates. See Government, Slovak Republic. 2002. *Policy Statement of the Government of the Slovak Republic*, Public Finance Reform. November, 2002, p. 4. Online at http://www.vlada.gov.sk/dokumenty/programove_ vyhlasenie_vlady-20021104_eng.rtf.

[36] See Krajčír and Ódor, *op. cit.*, p. 74.

[37] See Government, Slovak Republic. 2002, *op. cit.*

[38] See Ministry of Finance, 2004, *op. cit.*, p. 33.

[39] See *Slovak Economy. Slovak economy growing the fastest in Central Europe region*. Friday, March 11, 2005. Online at http://www.slovensko.com/news/2070.

[40] See International Monetary Fund, *IMF Executive Board Concludes 2004 Article IV Consultation with the Slovak Republic*, February 17, 2005. At http://www.imf.org/external/np/sec/pn/2005/pn0524.htm.

[41] See Organisation for Economic Co-operation and Development. 2004. *Economic Survey - Slovak Republic 2004: What key challenges does Slovakia face?* (Paris, 2004). Online at http://www.oecd.org/document/45/0,2340,en_33873108_33873781_26234605_1_1_1_1,00.html.

[42] See World Bank, *Slovakia Country Brief*, September, 2004. Available at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/SLOVAKIAEXTN/0,,menuPK:305126~pagePK:141132~piPK:141107~theSitePK:305117,00.html.

[43] See Krajčír and Ódor, *op. cit.*, p. 7.