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Regional gaps and regional policies.
The example of the Czech Republic and Slovakia

"It will be necessary to realize that one of the large obstacles to international integration is precisely the fact that a lot of countries is however badly integrated nationally"
G Myrdal (1958), p. 67.

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Abstract :

Our paper proposes an analysis in two points. First, we will discuss the neoclassical convergence theorie and introduce others theories that on the contrary try to explain the persistence of regional disparities. Become maket forces seem not to be able to balance regional gap, a regional policy is usefull in order to compensate market faillures, unless it is also locked through a path-dependent effect.

Second, we will emphasize how the cases of the Czech Republic and Slovakia are interesting while studying such a subject. Rather than trying to quantify the level of disparities, we will try to understand, through an analysis of initial conditions and path-dependency effects, the reasons that could explain them. We will describe the way national governements tries (or not) to remedy regional disparities. Concerning this, the position of the Czech republic and Slovakia is different because they inherit differentiated initial contexts and because they do not take care identically of the social cost of the transition. In this respect, we will focus on the impact of the European integration on the definition of national priorities in economic policies and the expected effect of the European regional policy when the countries will be members of the Union.

Introduction

With globalization, national borders become blurred and the regions are directly placed in the play of international competition. This heavy tendency of the international economy reveals a second tendency remained until now unexplored, namely persistence of

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strong regional disparities which call into question the capacity of the countries to maintain the growth of their national economies while preserving social cohesion.

The enlargement of 2004 of the European Union (EU) forms part of the debate on regional convergence. In a way more marked than for former enlargements[3], the integration of ten new members (Nm) being all at levels of GDP per capita lower than the average of the EU, encourages us to wonder about the nature of the process of catching up in progress. The convergence between countries has already begun and an important literature attests to it as well on the level of the nominal convergence as of real convergence[4]. The regional catching up (towards the EU regional average or the national Nm average) poses problem. Does national convergence involve regional convergence automatically? What are the existing linkages between one and the other? Is regional convergence spontaneous? What are the possible sources of blockings? Very few economic research approach convergence under this angle.

The existence of regional data bases remain rare (Regio, national bases) and the absence of a unified theoretical framework do not facilitate the reflection. For the moment, two theoretical approaches of regional economic convergence clash: approaches concerned with the standard neo-classic framework defending the idea of a spontaneous convergence and the approaches calling into question this assumption, seeking the causes to diversity and the possibilities to State action (by a regional policy for example). After having defined the concept of convergence, presented the arguments in favour of a spontaneous convergence and those in favour of a persistent diversity, the present study proposes to explain the arguments in favour of the regional policy. The Czech Republic and Slovakia constitute the selected ground of study.

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[3] Ireland, the United Kingdom and Denmark in 1973, Greece in 1981, Spain, Portugal in 1986, GDR in 1990, Austria, Finland and Sweden in 1995.

[4] Nominal convergence is linked to the criteria of Maastricht whereas the real convergence is related on GDP per capita. To refer in particular to W Andreff (1997), J Le Cacheux (1997).

I. IS REGIONAL CONVERGENCE SPONTANEOUS?

A. The neo-classic assumption of spontaneous convergence

In the standard neo-classic approach, free market induces a spontaneous rebalancing of the economy and an effect of convergence .

The return to equilibrium

Within the restrictive framework of the assumptions of the walrasian general equilibrium, it is easy to clarify the involved forces. On the basis of the assumptions of the pure and perfect competition (Ppc) [5], two processes will lead the national economy towards general equilibrium: the walrasian "groping" (which determines the equilibrium price on each market) and the arbitration according to the relative prices[6]. These two processes proceed simultaneously. With equilibrium, the difference between the demand and the supply of a good can be only null. In other words, walrasian general equilibrium corresponds to a list of equilibrium prices (a price for each good). For L Walras, convergence towards this equilibrium is spontaneous insofar as it is possible, on each market, to define an equilibrium equation which equalizes aggregate supply and demand (the equilibrium price being the value which makes it possible to solve this equation).

For a given country, does this general equilibrium correspond to a balanced regional distribution of the activities? Can durable gaps between regions remain?

Convergence according to the model of Solow

The concept of convergence developed by R M Solow makes it possible to answer these questions without leaving the framework of the neo-classic assumptions[7]. R M Solow analyzes "absolute" convergence between country having the same "structural variables" (same rate of saving, same demographic growth rate, same rate of technical progress). This convergence is a process of reduction of the standards of living dispersion (measured by

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[5] Assumptions of atomicity of the economic agents, homogeneity of the goods, mobilities of the factors, fluidity and transparency of the markets.

[6] If the relative price of good 1 decreases compared to good 2, the agents will consume more good 1 and less good 2.

[7] R M Solow (1956), pp. 65-94.

the product per capita supposed to be equal to the capital per capita). Convergence is ensured by the play of the Ppc assumptions and in particular the international mobility of the factors of production (capital and labour): the countries having a weak stock of capital per capita have a marginal productivity of the capital relatively higher than the richly equipped countries what should result in foreign investments (coming from the rich countries) into the poor countries. In an automatic way, all the countries converge towards a growth of equilibrium ("path of equilibrium"). R M Solow supposes that all the saving is invested and that the function of investment depends only on the yield of the capital (which is given by marginal productivity of the capital).

These various characteristics of the approach of convergence can be adapted to our object of study, namely regional dynamics[8]. For that it is enough to suppose that the actors of convergence are not any more countries but well regions of a single country[9]. "Regional convergence" is then interpreted like the process of gap reduction between the levels of regional GDP per capita and the national "path of equilibrium".

What is the speed of spontaneous convergence? The successive answers of R M Solow (1956) and J G Williamson (1965), without calling into question the spontaneous dimension of convergence, emphasize the first slownesses and blockings of the market strengths.

B. Slownesses and blockings of neo-classic convergence

It is a question here of slackening certain assumptions of the neo-classic framework and in particular the existence of same regional "structures", the fluid diffusion of technologies and the perfect mobility of the factors between the regions.

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[8] E. Combe operated such a transfer by “importing” the concept of convergence of R M Solow from the international economics to the industrial economics. E Combe (1997), p. 77.

[9] The mobility of the factors having even more chance to be effective between regions of the same country as between various countries.

The conditional convergence of Solow

For R M Solow, convergence makes it possible to reach a long run equilibrium towards which must tighten the entire system. But nothing is known as on the speed of this convergence. One can conceive that it can be very slow like very fast, even instantaneous[10]. In his models, R M Solow supposes that there is, at any moment, equilibrium on all the markets (and not only when the economy is on its path of equilibrium). However, the reasoning of R M Solow is based on a strong condition: a process of convergence can be engaged only between regions having the same “structures". However what does it occur in the event of differences of the aforesaid regional "structures"? There would be convergence not towards one path of equilibrium, but towards several. The approach of R M Solow suggests that each group of structurally comparable regions will converge towards its own path of clean equilibrium. In this case, durable regional gaps will remain in the long run. It is seen, the convergence described by R M Solow could only be "conditional" (i.e. given by the economic "structures" of the regions).

The assumption of Williamson

Without disputing the spontaneous character of regional convergence, J G Williamson (1965) seeks to show that the convergence is a very slow process: the first phases of national economic takeoff are accompanied by regional divergence and it is only in the one second time that a correction (absolute convergence) occurs "spontaneously" between the various regions of the country[11].

How to explain the interregional dynamics presented by J G Williamson? The author is interested in the evolution in time of the following elements: mobility of labor, mobility of capital, interregional linkages (of which diffusion of technological change) and central government policy.

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[10] B. Guerrien (1986), p. 294.
[11] J. G. Williamson (1965), pp. 9-10.

The reinforcement of the national growth rate due to a limited number of "growing poles"[12], gives the starting point simultaneously economic takeoff of the country and regional divergence. These poles attract logically capital and workers. In addition, the absence of interregional linkages in the first phases of the economic development reduced "the diffusion of technologies, the social progress and the income multipliers "[13]. Lastly, the government is tempted to maximize the national development by supporting the first growing poles massively. However, with time, the regional variations spontaneously will be reduced. J G Williamson explains this phenomenon by using arguments very close to those developed by R M Solow[14]. Indeed, with time the marginal productivity of the factors decreases in the regions where the factors are strongly concentrated (initial growing poles) whereas in same time the mobility of the factors and the diffusion of technical progress tend to improve. Technological changes occur in the poorest regions and thus support the emergence of new growing poles. Lastly, the national government sets up (for reasons of social cohesion, of search for economic development stability) a redistributive policy in favour of backward regions and a policy aiming at improving the mobility of the factors.

The approach of J G Williamson innovates compared to that of R. M. Solow because it appears that: convergence is a long run spontaneous process (the author studies statistical series going from 40 to 120 years according to countries'); There is no perfect mobility of labor and capital and no perfect diffusion of technological change in the fist stage of the development; The regional policy is good instrument (“perhaps most important”[15]) for reaching the equality in the geographic distribution of income between regions. Convergence is measured by an indicator of dispersion such as:

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[12] By reference in the searches of F Perroux (1955) on the growing points and Hirshman (1958) on the concept of polarization.

[13] J G Williamson (1965), p. 7.

[14] although R M Solow is never mentioned in the work of J G Williamson.

[15] J G Williamson (1965) ,p. 9.

$$V_w = \sqrt{\frac{\sum_i (y_i - \bar{y})^2 \frac{f_i}{n}}{\bar{y}}}$$

With:

f_i = population of region i

n = national population

y_i = income per capita of the region i

y = national income per capita.

C. Causes of diversity

Several arguments support the idea of a durable persistence of regional diversity in spite of the play of market strengths described previously. We will use the following arguments: determinants of the investment, the inertia of labor, external economies of scale, the absorption of technical change and transport costs.

The going beyond of the neo-classic assumptions

In the approach of R M Solow, the function of investment depends on the only marginal productivity of the capital[16]. But what would it occur if the investors held account of other criteria? G Grangeas (1997), for example, introduced a variable of risk aversion and notes that all the saving is not always invested in the poor regions (with strong marginal productivity of the capital) and that the economy remains durably unbalanced[17].

The mobility of labor is never "perfect" as it has been shown by J G Williamson, this factor being characterized by a double inertia: sectoral inertia explained by high costs of training, persistant “structure of classes” (G Myrdal, 1958, p. 249 and p. 253), geographical inertia due to high costs of removal but also to cultural, historical and sociological considerations.

The external economies of scale are higher in the earlier growing poles. While acting in a "negative" way (over-concentration of space, clogging of transport), they accelerate the migration of the capital towards the poor regions (and contributes thus to the

[16] The investors make their decisions taking into consideration one only exclusive criterion: return on the capital.

[17] If the agents continue to invest, by prudence, a part of their savings in the richest regions, there will never be interregional convergence. In the extreme case where all the savings would move of the poor regions towards the rich regions, a significant divergence should appear. G Grangeas (1997), pp. 29-31.

emergence of new growing poles). But in the opposite case, while acting in a "positive" way (easier linkages between companies, facilitated access to the market, modernization of the infrastructures) they reinforce the internal economies of scale and slow down the migration of the capital towards the poorest regions[18].

As for technical changes, even if its diffusion is fast, nothing guarantees that the production tool of the poorest regions will "absorb" in a optimal way the new technologies. Finally the existence of fixed costs of carriage durably determines the localization, the agglomeration dynamics being able to become "self-sustained" (Commissariat général au Plan, 1999, p. 12).

The necessary implementation of a regional policy

All the approaches against the neo-classic theory of convergence are based on the initial conditions. The taking into account of their inertial, cumulative effect and "path-dependent" is opposed to the reasoning in term of spontaneous convergence. It appears, following the not-exhaustive list of arguments presented above, that regional convergence is never spontaneous. It also appears that the mechanisms of the market can lead to a persistent inequality of distribution of the activities between the regions. With glance of the failure of the mechanisms of the market, the State seems to be the only actor able to engage regional convergence.

However, it is nevertheless possible that the intervention of the authorities itself is forced by effects of path and cannot inflect the national trajectories (either that the priorities of the government are different, or that the national policies must face to a heavy external pressure). In this case, the assumption of J G Williamson can be revisited. Indeed, the inversion of tendency describes by the author is explained more by a political good-will that by a spontaneous adjustment on the long run.

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[18] R Martin (1998), p. 26.

What were the choices of regional policy of the Czech Republic and Slovakia? The second part tries to answer to this question.

II. REGIONAL POLICIES IN THE CZECH REPUBLIC AND SLOVAKIA

Because of today's regional differences in the Czech Republic and Slovakia, it seems important for us to try to estimate the evolution of these differences over periods of time, in order to understand the impact of multiple shocks that have occurred in each countries (i.e. systemic change from socialism to capitalism, disintegration of Czechoslovakia and the integration in the EU). It is also important to discuss the challenges faced by the regional policies in regards to intra-national differences..

A. Today's Regional differences

Concerning the national economic growth, it is important to keep in mind that during most of the transition period, Slovakia has taken advantage of a higher GDP growth rate than the Czech Republic's one. Nevertheless, Slovakia still has a lot to catch up in regards to unemployment rate or GDP per capita

Concerning the regions, although we were not able to collect regional data since 1989 to look at the evolution over times, recent datas let us understand that differencies have increased during the transition process, opposing (and this is the particularity of the Czech Republic and Slovakia in comparison to others post-socialist countries[19]) capitals on one hand, and the rest of the countries on the other hand (Figure 5, p.21)[20].

Prague and Bratislava have taken advantage of their status of State Capitals and their proximity to the European Union. In fact, the Czech and Slovak capitals will be the only two regions of the new members states of the European Union that will not be eligible for the first *objectif* of the structural funds of the european regional policy because of their GDP per capita exceeding 75% of the average EU- 25 (111,7% for Bratislava and 148,6%

[19] Grasland (2004)
[20] On the graph, we can see that regarding GDP per capita, the higher points representing capitals regions are very far from the others regions , however very near to each-other.

for Prague)[21]. The level of unemployment is also very low. However, the counterpart of this success shows through the saturated infrastructures of Bratislava, and more seriously of Prague under the high flows of tourism, workers and traffic.

Nevertheless, the development of capital regions differs from the rest of the countries. In terms of GDP per capita, for the Czech Republic, none of the regions exceed the national average except for the capital city. In Slovakia, only one region reaches it : the Trnava region, around the capital city region (Table 5, p.21). Regarding the unemployment, the situation is even more different between regions, but capital cities are still more favoured (Figure 6, p. 21 and Table 4, p.21).

Some regions have to suffer from both weak growth and high unemployment) : - rural areas and initially poor regions (like Nitra in Slovakia) that didn't find the means to cope with the transition (lack of information, lack of marketing knowledge, exodus of the population, etc.) ; - enclosed areas (i.e. In Slovakia, the region of Presov where the Tatras keep taking advantages of the Polish border, and Banska Bystrica where the uneven areas enclose the districts) ; - highly populated but less dynamic areas (like Presov in Slovakia and Ostrava in the Czech Republic) ; - East areas (like Presov in Slovakia and Ostrava in the Czech Republic) ; - region with a high level of ethnic minorities (like in the South of Slovakia and in the district of Most in the region of Usti Nad Labem in the North of the Czech Republic that is long to find a second breath, despite the proximity of Germany, and the high level of communication lines).

However some regions have better succeed their development. Some of them have low unemployment: - regions that have developed an other kind of production but an industrial one (i.e. paper manufacturer in the region of Zilina in Slovakia, textile in Trencin in Slovakia and spa tourism in Karlovy Vary in the Czech republic) ; - regions with a high industrial specialisation but able to face restructuring and find new opportunities (such as

[21] Source : Eurostat.

military production in the region of Zilina in Slovakia converted in civil aeronautic). Some other regions have a higher GPD per capita : - regions with big agglomerations (like Kosice in Slovakia, the second biggest city in the country after Bratislava, economically dynamic despite the high level of unemployment due to the restructuring of the iron and steel industry) ; - regions densely populated and dynamic (like Brno in the Czech Republic) ; - regions taking advantage of a dynamic border (like Trencin in Slovakia at the Czech border). Some others benefit from both: - regions near the State Capital Cities that can benefit from the dynamic of the zone (like both Trnava in Slovakia or Central Bohemia in the Czech Republic, where PSA Peugeot-Citroën has decided to establish car production centers - regions with a dynamic border (Plzen and Ceske Budejovice in the Czech Republic at the German and Austrian border).

Moreover, Slovak regions have yet to catch up with the Czech regions ; in the comparative tables concerning GDP per capita or unemployment (Table 4 and Table 5, p.21), Slovak regions plead a weaker economic dynamism. This matter of fact shows that the spectacular growth rate that Slovakia had between 1994 and 1998 was not high enough to erase the backwardness of the country, and was more profitable for Bratislava than for the rest of the regions.

Comparing to what has been said in the first part, it is possible to say that during the transition period, both Czech and Slovak economies have been developed, and that a certain level of convergence is visible between the two countries and the European Union. However, the transition period has not changed the situation. Two conclusions can be drawn. First, Slovakia is always beside the Czech republic and second, the transition has worsened the gap between the capitals cities and the rest of the regions in respective countries. This trend unlikely seems to be changing soon.

B. Why such ongoing unbalanced effect despite the transition ?

As we have previously discussed the ongoing persistent differencies despite economic growth and restructuring; we will now look for an explanation of this phenomena in historical factors, in the impact of the transition and in the weakness of the market forces.

The Czech and Slovak regional historical unbalance

Within the Czechoslovak Federation, the visible regional difference existing between Czech and Slovak lands came from the differentiated heritage and chronological gap of the « modernisation »[22] period of the two regions. The industrial sector, in the Czech Republic, was older and better developed than the Slovak one, where agriculture was predominant.

Under the domination of communism, some progress were made. Sustained through large financial subsidies and with the introduction of numerous industrial complex of production on the territory[23], Slovakia has experienced, between 1948 and 1989, a fast-growing industry and an improvement of its contribution to the national production level (Table 1, p. 19). But this visible convergence was also due to the fact that the Czech production was disturbed by the departure of Germans from Sudete lands after the second Word War. However, such progress did not manage to fill the gap between the two sides of the country (cf. production level, FDI, level of rural life, etc. - Table 2, p. 19 and Table 3, p. 19). Moreover, Slovakia who had been essentially industrialised under the communist period was more seriously touched by the reform process implemented in the first years of the transition. The recession of the GDP (Figure 1, p. 19) and the raise in unemployment (Figure 2, p. 20) in this side of the federation were based on the contraction of military production decided by the federal government.

The partition and the degradation of regional unbalance

Although the disintegration of the federation was seen as the only possibility for

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[22] Quoting J. Rupnik (1999).

[23] Because they are situated more in the East, Slovak territories represented a place strategically farther from western countries and then more secured to establish military production centres.

Slovakia to catch up and for the Czech Republic to grow faster, it has also participated to the worsening of the regional economic context in both countries by creating new disadvantaged peripheral regions situated at the border of the two new independent states. Some regions have been deprived of their economic centre situated in the other state ; this is the case of Cadca in Slovakia, cut off the dynamic economic region of Ostrava-Karvina in the Czech republic[24]. Some others have suffer of the population decrease under a certain level that ensured profitability of local services and encouraged the creation and the development of economic and social activities. A certain political instability due to the problematic separation of the Czechoslovak territory has limited the development of border regions.

The transition process and the reintegration of transportation costs

In the communist industrialisation policy, the regional dimension was central. First, the implementation of industrial centres was planed in order to ensure regional development, which was, because of the absence of market rules, totally dependent on the central planning. In this respect, these localisations were more dependant on political goals and military strategy than on economic calculation of the optimal solution. That's why, transportations were subsidized in order not to disadvantage remote areas but on the contrary, to promote a fair development for each region. The end of the socialist system induced the stop of subsidies and at the same time the reintroduction of transportation costs. In this respect, some regions have undergone a triple shock during the transition (obsolescence of the production, increase in energy price that they highly consumed and improvement of access cost to market).

The failure of the regulation power of the market

The transition process has also reintroduced market mechanisms. But facing regional disequilibria, none of these mechanisms restore the balance. Concerning mobility in one

[24] OCDE (1996), p. 66-67.

side, mobility of labour, in a first time, contributes to saturate state capital cities and to depopulated poor areas, when, in a second time, the housing shortage has limited new mobility waves. Concerning capital mobility, since 1993, flows of foreign direct investments (FDI) have been significantly weaker in Slovakia than in the Czech Republic (Figure 3, p.20), mostly for political reasons. Because of that, the positive impact of economic openness and international transfers of technology have had a slower impact in Slovakia than in the Czech republic. Moreover, FDI were systematically concentrated in the big agglomerations of the two countries, and more specifically in national capital cities and near areas. In this respect, they have encouraged the regional gap between advantaged and disadvantaged regions where the experience to attract FDI and to promote local investment potential was lacking.

On the other side, the propagation effect of centres of economic growth has been limited to capital cities and regions in the neighbourhood and has not been spread all over both of the countries. The saturation of some areas have neither reinforced the attraction power of depressed areas, nor favoured the emergence of new dynamic centres.

To make it up, the two studied countries have chosen opposed political ways to manage regional disparities which have been completely inverted in each country in 1998.

C. A few regional policies in the Czech Republic and Slovakia

Facing the persistency of the disparity between regions, the two countries have implemented different policies, not necessary just regional. The importance given to regional disequilibria has not been the same depending on the country and time period.

The difficult implementation of a regional policy at the beginning of the transition

In both country, during the first years of the transition, the implementation of a regional policy has been difficult because of the institutional initial conditions in one hand, and the priority and goal followed by each national government on the other hand.

Within institutional initial conditions, several factors explain such difficulty. A first explanation comes from the Czechoslovak heritage (lack of Federal Regional policy, different national conception concerning the method to solve regional disparities, heavy weight of differences between the Czech part and the slovak part compared with the difference between regions among each countries)[25]. A second explanation is linked to the question of decentralisation and to the lack of a regional administration . Indeed regions have been abolished after the fall of communism in order to improve democracy at local level and have not been re-established then after because of the fear that it would destabilized the central administration. Moreover, it was difficult to define a new repartition of the competencies between central administration, local authorities and enterprises[26] and to identify the disequilibrium that should be solved in priority, resulting in the many difficulties the government had to cope with in the first years of the transition.

Regarding each country specifically, governments have not followed the same goals. In the Czech Republic, thanks to favourable economic situation (important traffic infrastructures, low unemployment, FDI flows), the government was not constrained to implement a specific regional program of development. In reality, we know that the government had a paradoxal attitude. In one hand, it shows its determination to implement rapidly the reforms, the Prime Minister, Mr V. Klaus, who was pro a *laisser faire* policy consisting in waiting the market to emerge spontaneously and balance the economy. The will to reduce budgetary deficit keeps him from implemented a redistributive policy. On the other side, through embedded property rights between state-banks and enterprises, the government has participated to maintain a weak budgetary constrain on enterprises allowing or even encouraging firms to run into debt and insolvency. For this reason, the

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[25] Which explain that the evaluation of regional difficulties and the implementation of a regional policy took more time in the Czech and Slovak republics than in Poland and Hungary (OCDE 1996, p.162), despite more favourable budgetary conditions.

[26] Same as under communism, once though that unemployment allocation, social services, etc., should be provided by firms (OCDE 1996, p.41).

implementation of a direct and redistributive regional policy was not possible in the Czech republic. Firstly, it should have been unpopular in regards to the Washington Consensus recommendations ; secondly, because of indirect intervention of the State through property rights, it was impossible to define the scale of regional difficulties or the existence of growth potentials.

In the case of Slovakia, because of less favourable initial conditions and because the government promised to limit the shock in the transition process, the premises of a regional policy have been developed. Unlike in the Czech republic, the State should keep control on the economy and budgetary balance should not be the priority of the transition process. In this respect, a redistributive policy was still feasible, even unpopular abroad. Moreover, the government also introduced an overweight on imports in order to protect the national production system. However, because of the lack of growth potentials (weakness of infrastructures, obsolete centre of growth, etc), uneven areas, limited border with the EU and small level of FDI inflows, the effects of catch up have been limited, both at national and regional levels.

Inversion of political attitude in 1998

In 1998, in both countries parliamentary elections induce the change of political majority and the complete inversion of governmental priorities. On the Czech side, a less liberal economic policy has been implemented, more redistributive and to the detriment of public finance balance (Figure 4, p. 20).

On the Slovak side, on the opposite way, the new government had followed a more restrictive policy with the priority to make the country more popular in the eyes of international organisations and foreign investors. Following the period when Slovakia was isolated and excluded from international relations (lack of foreign investments and the European Union refusal to begin the negotiations of becoming a member in 1998 like the countries of the first wave), the government has decided to pursue the reforms in order to respect the european conditionality (rule of law, democratic stability, well functioning market economic and respect of the Maastricht criterias). Stopping grants and implementing a restrictive policy have efficiently reduced the public deficit (Figure 4, p.20) but have limited at the same time the possibility to sustain a regional policy. The priority has been given to national growth and stability more than to a balanced development of the country.

The weight of the budgetary constrain and the role of the EU

Finally, the budgetary constrain governments have imposed to themself seems to have played a major role in the implementation of regional policy, making it difficult to limit internal tensions and regional disparities while having to cope at the same time with the international constrain asking for more budgetary orthodoxy.

Concerning this point, the attitude of the European Union has been very contradictory, proposing on one hand a institutional frame to implement the european regional policy, but recommending on the other hand, a strong financial discipline within its own principles of regulation. Actually, in both countries, it is noteworthy that it is only since the beginning of the negotiations for membership, and particularly those concerning the Chapter 21 of the *acquis*, that a framework of institutions and organisations in charge of the regional policy has been completed : - territorial division in NUTS (*Nomenclatures des Unités Territoriales Statistiques*) to get the statistical data, required to evaluate the level of economic development of each european regions ; - creation of decentralized administrative regions ; - creation or strengthening of institutions aiming at constituting the National Plan of Regional Development and also at better evaluating the projects, distributing the subsidies and controlling the way they are used.

However, because of the opposition between real and nominal convergence, budgetary restrictions may provide certain regions to catch up. However, all along the transition period, a strong budgetary orthodoxy has been recommended to CEEC countries.

The constrain is so important that it is specified in the Maastricht criterias that the countries should come up while wanting to enter the Euro zone the soonest. Even if it was not a condition to the membership in itself, trying to stabilise nominal variables was a government capacity warantee to implement reforms and to respect European rules which was important for the good reputation of the country. For Slovakia, after several years of isolation, the constrain has been strengthened since 1998, whereas for the Czech Republic it has been relaxed at the same time.

Conclusion

The analysis of the Czech and Slovak cases has allowed us to confirm the conclusions we drawn in the first part of this paper. On the contrary to the spontaneous convergence described by R. M. Solow and J. G. Williamson, a diversity of economic performances still persist between regions of a same country, despite the improvement of the global national economic situation. In the Czech Republic and Slovakia, disparities oppose the capital to the rest of the country. Two explanations can be given. Firstly, market forces reintroduced by the transition did not participate to a balance the economic development between regions because of path-dependence and auto-reinforcement mechanisms. Secondly, regional policy do not inverse the tendency because their implementation has been limited either due to institutional initial conditions or to budgetary constrains. Relating to this point, the European Union has played a paradoxal role offering suitable institutional frame in one hand, but limiting the budget on the other hand.

In the case of Slovakia, it is particularly visible that the government focus on the balance of the public budget and let the responsibility of regional disparities to the european structural funds. However, as far as the vocation of the european regional policy is not to substitute the national one, one can ask how regional disequilibrium could be solved.

APPENDIX

Disparities within Czechoslovakia

Table 1 : The weigh of Slovakia within the federation

	1918	1937	1948	1989	1992*
Net Material Product	12%	12%	19,2%	30,4%	28%

* GDP in 1992

Source : Krovak J. [1993]

Table 2 : Basic data on the initial position of the two republics in the federation in 1992.

	Czech Republic	Slovakia
Share of GDP	72%	28%
Share of FDI	92%	8%
Unemployment rate	2,6%	10,4%

Source : Krovak J. [1993]

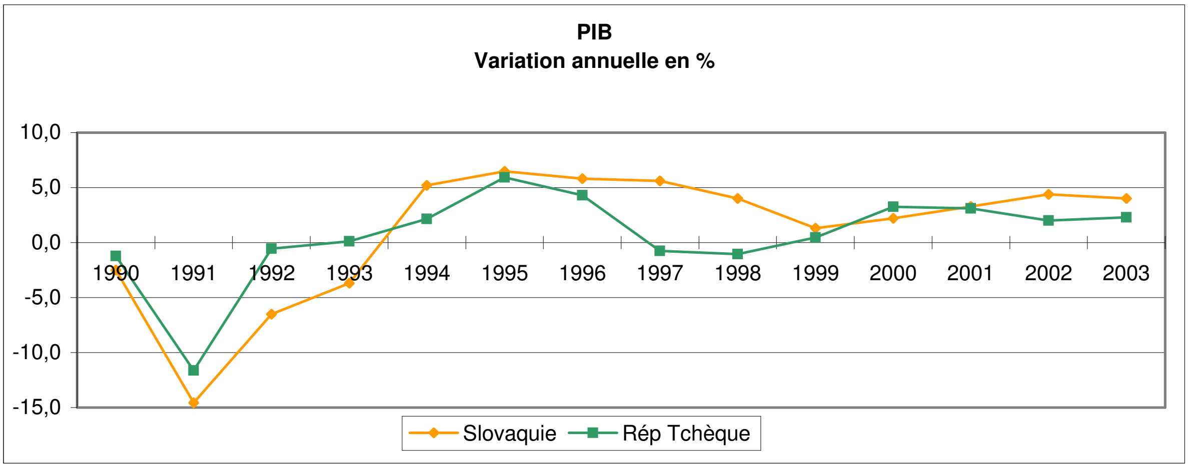
Table 3 : Share of agriculture in each republic.

	Czech Republic	Slovakia
Share of agriculture in GDP in 1989*	6	9
Share of agriculture in employment in 1989*	9	12
Urbanisation (% of the population) en 1990**	65%	57%

Source : * M-C. Maurell [2003], ** De Melo, Denizer, Gelb & Tenev [1997]

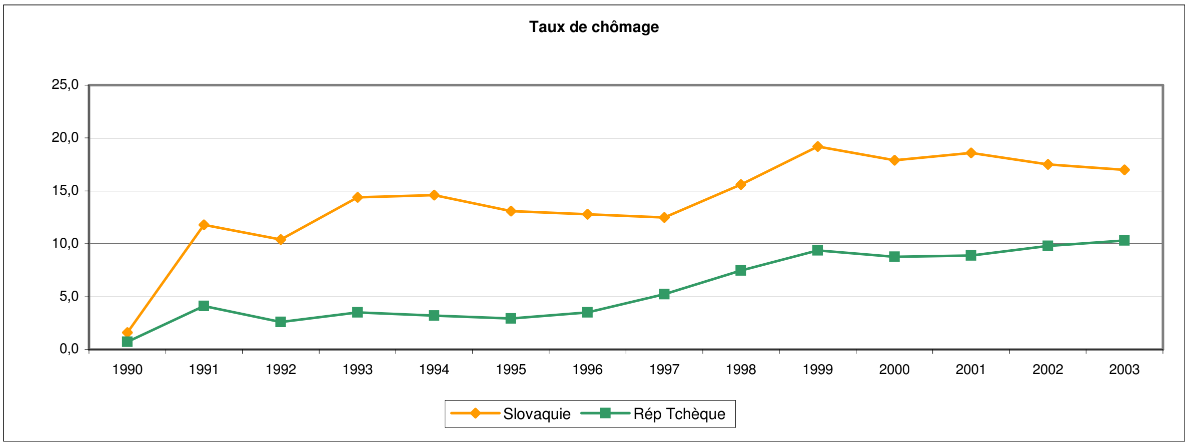
Comparison of macroeconomic indicators of Czech republic and Slovakia :

Figure 1 : Comparison of GDP growth rate, annual variation in %.



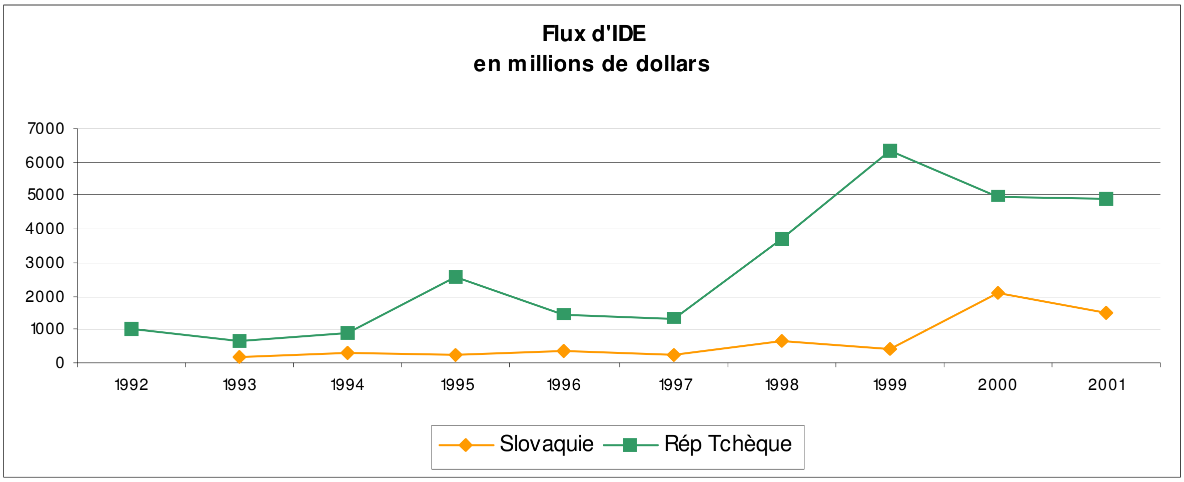
Source : WIIW.

Figure 2 : Comparison of annual unemployment rate.



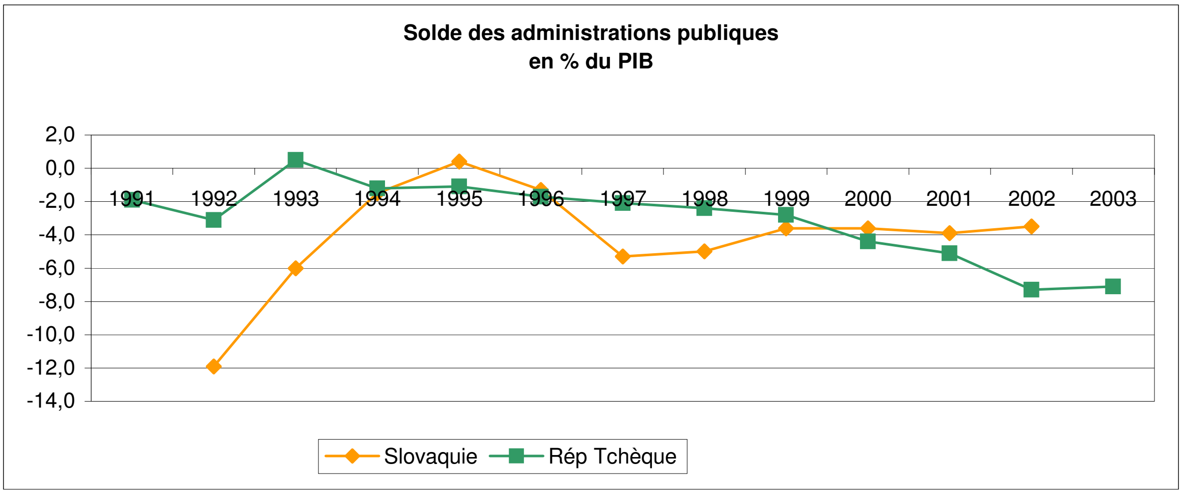
Source : WIIW.

Figure 3 : Comparison of FDI inflows.



Source : WIIW.

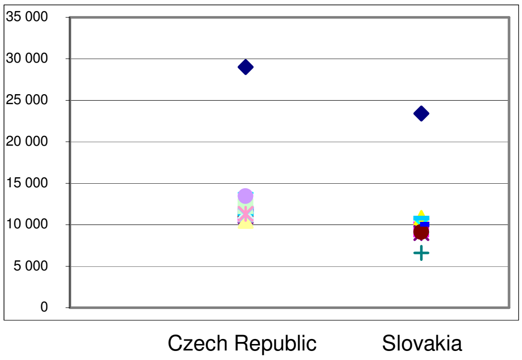
Figure 4 : Comparison of State budgetary balance in % of GDP.



Source : WIIW.

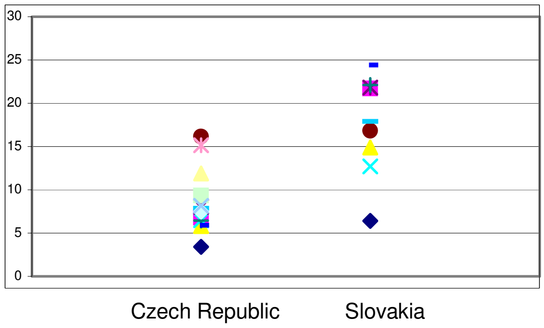
Regional disparity among each country in 2000 :

Figure 5 : Comparison of regional GDP per capita depending on the country (in SPP, in 2000)



Source : National statistical offices

Figure 6 : Comparison of regional unemployment rate depending on the country (in %, in 2000)



Source : National statistical office

Table 4 : International comparison of regional unemployment rates in 2000

Prague	3,4
Ceske Budejovice	5,8
Hradec Kralove	5,9
Bratislava	6,4
Liberec	6,4
Plzen	6,5
Central Bohemia	6,8
Moravske Budejovice	7,5
Pardubice	7,9
Karlovy Vary	8,0
Zlin	8,1
Czech average	8,8
Brno	9,3
Olomouc	11,9
Trencin	12,7
Trnava	14,9
Ostrava	15,1
Usti Nad Labem	16,1
Zilina	16,8
Slovak average	17,9
Nitra	21,7
Banska Bystrica	21,8
Presov	22,1
Kosice	24,4

Table 5 : International comparison of regional GDP per capita in 2000

Prague	28 997
Bratislava	23398
Czech average	13 460
Plzen	13 019
Bron	12 190
Ceske Budejovice	11 989
Hradec Kralove	11 866
Liberec	11 343
Pardubice	11 318
Ostrava	11 316
Zlin	11 185
Central Bohemia	11 135
Karlovy Vary	11 040
Ústi Nad Labem	10 989
Trnava	10828
Moravske Budejovice	10 802
Slovak average	10767
Olomouc	10 482
Kosice	10056
Trencin	9946
Nitra	9418
Zilina	9118
Banska Bystrica	9010
Presov	6599

Slovak regions
Czech regions

Source : National statistical offices

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