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# Slovakia's courageous gimmick

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As both the United States and Europe grapple with levels of government debt unprecedented in peacetime and continue to run large budget deficits, it might be useful to consider an innovative though quirky approach chosen by Slovakia to deal with the problem. Slovakia, a small country of 5 million people in Central Europe who gained their independence only in 1993, has been known for unorthodox policies ranging from a unified 19% flat super-tax on both sales and income, to putting all public contracts on the web to prevent corruption. The global crisis and some irresponsible policies meant that the Slovak budget deficit shot up to 7.9% of GDP in 2009, and the 2010 figure is expected to be similar, despite rapid output recovery of the domestic economy. In response, the new government that took power in July unveiled a consolidation package to push the deficit under 5% of GDP in 2011 and below 3%, as mandated by the European Union, by 2013.

To this fairly standard approach, the government is adding a few of its own innovations. Next year, it plans to introduce a set of constitutionally protected fiscal rules on debt and deficit and to create a constitutionally protected Fiscal Council to oversee them (a sort of Congressional Budget Office on steroids). More quirkily, the parliament already passed a law in December that ties salaries of top government officials to the fiscal deficit. Up to now, the salaries of senior public servants – ranging from the president, prime minister, ministers and deputy ministers through parliamentarians to judges and prosecutors, as well as heads of nearly all important public institutions – have been linked solely to the country's average wage and expressed as its multiple. The new system preserves the link, but adds a catch. If the fiscal deficit is above the EU threshold of 3% of GDP, then the following year salaries of all senior government officials are cut by a percentage that is tied to the size of the deficit. For example, if the deficit is above 7% – as it is in 2010 – then 2011 salaries are going to be cut by 15% compared to where they would be normally. If the budget situation improves, this 'deficit deduction' is reduced or eliminated in the following years.

In other words, the personal prosperity of top officials is now based not only on wage developments in the economy, but also on fiscal prudence. The law has been called a "gimmick" by its opponents, since most of those affected by it do not have a direct way to influence the fiscal deficit and the consolidation package would have been approved even without it. Although the criticism is valid, it misses two important, political points.

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First of all, the law sent a powerful message to the electorate that the country's political elite is serious about fiscal consolidation. Salaries and perks of the top officials have been a subject of public obsession ever since the country's independence in 1993, including a lot of grumbling about their supposedly generous nature. As a consequence, the law's preparation and passage have also been widely reported – nearly as widely as the consolidation package itself. To a skeptical public, it communicates resolve more effectively than nearly anything else the politicians could do. Secondly, the law has indeed concentrated minds of all senior public officials. Even without resorting to crude versions of public choice theory, it is easy to understand why a salary cut or rise of such magnitude can make those at the top more concerned with fiscal consolidation than they would otherwise be.

Slovakia has effectively passed an internal version of the EU Stability and Growth Pact, which was supposed to prevent EU member states from running deficits above 3% of GDP. Unlike its supranational counterpart, criticised for being rather toothless, the Slovak version has automatic and individual sanctions. It will be of more than a passing interest to watch whether it will work better than its European counterpart.