

WAYS OF REFORMING THE SYSTEM OF PUBLIC FINANCE IN POLAND AS AN IMPLICATION OF THE EFFECTS OF THE COVID-19 EPIDEMIC. FINANCIAL AND ECONOMIC APPROACH

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Abstract. Public finance management has a very global nature. Here decisions are made that determine everything related to collecting and allocating public means. However, the public finance system need to realize that this level is also highly entangled politically, with political transformations accompanying changes of governments and cooperating party coalitions. This accounts for the fact that some general recommendations are formed, specifying the ways of managing public means. The aim of the article is to identify ways to rationalize the reform of the public finance system in Poland. Induction was used as the main research method. It consists in drawing general conclusions or establishing regularities based on the analysis of empirically established phenomena and processes. The results of the presented content are proposals to optimize financing and management of the public sector in Poland. The main conclusion from the analyzes carried out assumes that the structure of public expenditure in Poland is characterized with high share of expenditure on social care, especially on allowances related to gaining and allowances for the family of a deceased person. Relatively high public expenditure is also allocated to education, mostly on higher education, and national defense. At the other end of the scale, categories which receive relatively little financing in Poland include: healthcare, with particularly low level of investment expenditure, and general state activity (public administration and interests on public debt).

Keywords: public finance; new public management; optimizations; rationalization

INTRODUCTION

The recent wave of increased COVID-19 cases has caused economists to massively verify forecasts of economic growth in 2021. Economists predict that the Polish economy in the first and second quarter will remain in a

fairly large negative area (around -3.3 percent on an annual basis). In their opinion, the entire year will end with a decline in GDP of -2.9 percent. (own calculations based on data from the Ministry of Finance). To mitigate the financial impact on citizens and the economy as a whole, the European Commission adopted an Action Plan providing a comprehensive economic response to the coronavirus pandemic, made full use of the flexibility of EU fiscal rules, revised existing state aid rules and launched a Coronavirus Response Investment Initiative, with a budget of 37 billion euros to provide liquidity to small businesses and the healthcare sector. The European Commission has proposed far-reaching measures to mobilize every euro from the EU budget to protect life and livelihoods. The Commission has launched a new initiative called SURE – Support to Reduce the Risk of Unemployment Due to an Emergency. This action is designed to help preserve jobs and support families. The Commission also proposed redirecting all available structural funds to actions in the context of the coronavirus. Support will also be given to farmers and fishermen, as well as those most in need. The € 3 billion EU Solidarity for Health initiative will meet the needs of Member States' health systems. Support primarily requires rationalization of public spending to reduce social spending and reduce tax burdens. Further savings should be sought through a wider introduction of NPM (new public management) to the public sector [Bogacki and Wołowicz 2021, 515-27].

The costs of the day-to-day operation of central institutions constitute 20% of the state budget. In 2020, the administration spent over PLN 88 billion on its functioning. 68% of this amount was wages. If we reduce the current savings only to a temporary cut in expenses, in a year public institutions will not have enough money for their current operations (own calculations based on the data of the Central Statistical Office). Public spending has been improving for several years. The increase in the share of current expenditure in 2020 resulted only from the reduction of the investment budget. Actions related to counteracting the effects of the crisis have shown that significant savings can be made in central administration units without significantly reducing their usefulness for citizens. Another necessary element on the way to rationalizing the management of public funds will be limiting current expenditure for investments.

Public means should be managed in a way ensuring their effective use, that is they should maximally contribute to the satisfaction of social needs of various social groups and layers. Reaching the above-mentioned areas of public finance management we need to point out the essence and characteristic features of this process within such basic institutions as state budget and budgets of self-government units on all levels. From this point of view it is necessary to indicate what management of state budget means should be based on.

Traditional budget, the main element of whose structure is budget classification, must evolve towards a “task-project oriented” budget, flexible and effective to manage. Here we can only add that at present we have strict framework of budget management on one side and a system of particular first-degree keepers on the other side, which significantly limit the possibility of rational management of public means. A very important area of managing public means is management of their surpluses or shortages. Since a shortage – in the shape of budget deficit transforming into public debt – is a common phenomenon, therefore we need to pay special attention to it. Here it is important to distinguish a flow nature of income and expenditure, which concerns a specific period of time, such as a calendar year, and the accumulating deficit, which leads to considerations devoted to problems connected with public debt [Wójtowicz 2014, 73].

Neither the phenomenon of budget deficit, or public debt can be treated as “action” phenomena (that is actions are taken aimed at, for example, reducing deficit). This requires a long-term approach and calls for long-term, not one-off management. That is why management of the above phenomena is so vital. It may turn out that from the rational and effective point of view it is necessary to use public means in a way that temporarily increases deficit. Such a decision must not be political; it should have economic and social foundations. This area of public means management is of fundamental importance and requires application of appropriate methods, that is methods tailored to the nature of the regulated phenomena. The above comments referred to the state budget can be applied in budgets of self-government units. However, in this case public means management refers not only to decision-making bodies, such as councils of relevant levels, but is supported institutionally in Regional Audit Chambers [Ziółkowska 2012, 50-52].

1. LITERATURE REVIEW

Containment measures to halt the spread of the 2019 coronavirus pandemic entail large short-term economic costs. This column attempts to quantify these effects using daily global data on real-time containment measures and daily indicators of economic activity. Over a 30-day period from implementation, containment measures have, on average, led to a loss of about 15% in industrial production [Baldwin and Weder di Mauro 2020, 2-20].

Macroeconomic policy measures have however mitigated some of these economic costs. Stay-at-home requirements and workplace closures are most effective in curbing both infections and deaths but are also associated with the largest economic costs [Baker, Bloom, Davis, et al. 2020]. Governments and central banks around the world have implemented unprecedented

economic measures in response to the COVID-19 pandemic. Using IMF Policy Tracker data on discretionary fiscal and monetary measures taken in response to COVID-19, we find that the measures were effective in mitigating some of the economic costs of containment. Containment measures have had a much larger adverse impact on economic activity in countries with relatively small fiscal packages – equivalent to a 22% decline in industrial production [Barro, Ursúa, and Weng 2020, 3-18]. Similarly, the adverse impact of containment measures was mitigated in countries with large cuts in policy rates [Martyniuk and Wołowicz 2021, 15-26].

An analysis of the short-term trade-offs between minimising health risks and economic losses is necessary to inform the discussion of how countries should open-up their economies as well as how best they can respond to any second wave of infections. We therefore analyse the effects on economic activity, infections, and deaths, of different containment measures [Coibion, Gorodnichenko, and Weber 2020, 1-19]. Economists find that among different types of containment measure, workplace closures and stay-at-home orders are the most effective in flattening COVID-19-related infections and deaths, but they are also the costliest in terms of their impact on economic activity. Less costly containment measures, such as school closures and restrictions on gathering size, are successful in reducing COVID-19 infections, but less effective in curbing fatalities [Eichenbaum, Rebelo, and Trabandt 2020, 1-27].¹

Rationality of public finance is impossible without a clear model concept of the state, its role and consequent scope of public tasks realized. Unfortunately, due to the lack of an unambiguously accepted and consistently implemented vision of the state, both the socio-economic shifts and the attempts to reform the public finance sector throughout the transformation process in Poland have been characterized by a far-reaching lack of cohesion – governments and parliaments have changed, political doctrines have changed, individual manifestos have turned out to contain internal contradictions [Szołno-Koguc 2011, 384-95]. Rationality means basing actions on scientific motives or principles – a rational action is a wise, judicious action which is in accordance with the knowledge one possesses. From an economic point of view rationality is considered in the context of the realization of the defined goals of an action by the managing entity. Rationality of management means human activity consistent with the state of knowledge of the surrounding reality, enabling the best social and economic results to be achieved [Idem 2009, 17-20]. Rationality of management is inextricably linked with effectiveness. Effectiveness is a narrower concept, in the economic sense it takes into account the balance of efforts and results, and not all of these, and not

¹ World Bank, *The economy in the time of COVID-19*, LAC Semiannual Report, April 2020.

in every situation, can be measured and expressed in monetary terms. This is particularly important in the context of managing public funds – indeed, they are allocated not so much for a direct economic effect as for the public good (interest) [Wojciechowski and Wołowicz 2021, 101-11].

Rationality thus means not just effectiveness, but also the social justice aspect [Szołno-Koguc 2015, 87-90]. In the economic sense, two models of rationality can be differentiated – instrumental rationalization understood as striving to increase the extent of activity while simultaneously improving its effectiveness, and teleological rationality, which is expanded to cover the judicious shaping of goals [Musgrave and Musgrave 1976, 30-35]. The first model concerns the optimum breakdown of available funds for realizing a defined goal, in light of the subject's knowledge. The second model involves ensuring that actions are consistent with the existing regulations and recognized standards, which is crucial with regard to public finance [Stiglitz 2001, 2-15]. The supply of public money is, by definition, limited (there are limits to both taxation and public debt), so public spending must therefore also be limited. Rationality of public finance is thus not expressed exclusively in the size of public spending, as this parameter does not provide an adequate basis to assess activity financed from public funds, particularly in the context of the better adaptation of the extent and standard (quality) of this activity to the needs of a given community. This rationality is more likely to lead to an evaluation and choice of goals, and to the formation of a structure of public spending allocated to achieving those goals [Buchanan 1997, 12-24].

Poland needs more effective budget policy tools. Budget planning should go beyond the horizon of one year, which will contribute to the effective distribution of public funds in subsequent budget years (not covered by the Budget Act). It is also necessary to rebuild the processes of budget planning and execution, which are currently implemented in two systems (the so-called traditional and task (project)-oriented). This will contribute to increasing the efficiency of expenses and creating the space necessary to finance new public tasks. Further reforms mean further challenges taken up in search of rational public finance, a system of collecting and spending public money which is consistent with scientific principles and relevant to the conclusions drawn from practical experience in this and other countries. In addition, the changing social and economic reality entails changes to the approach, a redefinition of priorities, appropriate adaptation of structures, procedures and above all of the flow. An analysis of previous experience proves that it is fruitless to seek rationality in public finance, as its system will never fulfill its role properly without a clear and plainly defined vision of the state. It is the realization of that vision which is served by operations involving collection and spending of public funds [Buchanan and Musgrave 2005, 13-16].

2. GENERALIZATION OF THE MAIN STATEMENTS

The present shape of the contemporary public services in the world was greatly affected by the concept of New Public Management. It originated in Great Britain. In the 1980s the organization and management in British public services was subjected to the pressure of changes. New concepts of management in public sector were created, later to become an inspiration for many OECD countries to reform their public administration. It was visible that the fundamental change postulated by New Public Management was the way of financing and the style of management as well as clear expression of an organization's goals and their accomplishment. It was also clear that the model aimed at increasing steering ability of the system of public services. Over recent years the above assumptions have been modified and developed. As a result, organizational paradigms for reforming public institutions were created. Four concepts were developed, on which reforms were to be based, within the New Public Management [Wołowiec 2021a, 78-90]: Model NPM 1. Increasing effectiveness; Model NPM 2. Decentralization and "lean public sector"; Model NPM 3. In search of excellence; Model NPM 4. Public service orientation.

The recent decades have been characterized not only by significant development of the third sector, but also a growing participation of civic movements and non-profit organizations in planning public policies nationwide (as well as in the whole EU) and the growing importance of social activity in local development. This trend was noticed in the European Union, where the principles of subsidiarity, partnership and social dialogue postulate gradual increase in the scope of cooperation between public institutions and civic society organizations. Therefore the fundamental question is not "Should we cooperate?," but "How should we cooperate?" The state plays two, partially independent roles in the system of inter-sector cooperation.

First of all, the state is one of actors of this cooperation, having interactions with other actors (state – business sector, which is also defined as public-private partnership, and state – non-governmental sector, that is public-social partnership).

Secondly, the state – as the lawmaker – determines the principles in which the public sphere functions and the rules of cooperation between actors. This undoubtedly gives the state a privileged position, which, in a democratic system, is partly balanced (or at least it should be balanced) by the principle of the limited nature of the state power.

In Europe we can observe two major models of cooperation between public administration and non-governmental organizations in the area of public benefit (social benefit): the German model and the English model [Wołowiec and Bogacki 2021, 95-108].

The German model is characterized by (1) full implementation of the principle of the state subsidiarity, operationalized in the legal system as the principle of precedence of social entities as far as provision of social services financed with public means is concerned, and (2) corporation nature of the relationship between public administration and non-governmental organizations. The latter is reflected in the high level of federalization of the third sector and the actual establishment of structures compatible with public administration structures, able to negotiate terms of cooperation on each level of the administrative structure of the state.

The English model is characterized by (1) greater opening to competition among service providers, and subsequently greater role of market (or quasi-market) mechanisms in the system of public task commissioning, as well as (2) the resulting lack of preference for non-governmental organizations. It is no coincidence that in Great Britain they talk about cooperation between the state and “the independent sector”, defined as all *for-profit* and *non-profit* entities interested in tenders for performing public tasks. What is more, the principles of inter-sector cooperation are shaped by public-private partnership rather than public-social partnership. Both models have their strengths and weaknesses, well diagnosed and analyzed in subject literature. It should be noted that standardization in the German model is directed at (1) maintaining high quality of social services and (2) ensuring continuity of their provision. The latter leads to developing a job security system for non-governmental organizations. In the English model, on the other hand, standardization mostly serves effectiveness, in practice boiled down to lowering costs of maintaining the system of services for the society (social services).

Both models use standardization of cooperation for professionalizing the third sector. However, this is a different type of professionalization. Non-governmental organizations in Germany professionalize and become similar to public institutions, adopting their standards and corporate culture. On the other hand, the English version of professionalization means that non-governmental organizations become similar to corporations, both in management (seeking profit or financial surplus) and working culture. The side effect of the German model is the above-mentioned job security system of social organizations, whereas in the English model – commercialization of the non-profit sector. In case of both states the currently implemented recovery program consists in attempting at popularizing the elements of the competitive model in their own model. Great Britain is introducing elements of negotiations, typical for the corporate approach (this is the already mentioned idea of a pact about), and Germany – elements of competition, opening one of the segments of social services market for business entities. When initiating work on standardizing social services it would be advisable to further pursue the development of compromise solutions,

combining elements of both models. Service standardization is a process of gradually developing answers to the question of what, in what quantity and on what level could be proposed within a particular service for specific individuals and groups, adequately to their identified needs and in accordance with the requirements of their rational satisfaction.

Standards are created because they perform a series of specific, useful functions, such as: 1) normative function – formally and organizationally standards determine the model subordination of the relations between technical-organizational and quality criteria for providing services and needs in this scope; 2) stimulating function – standards as a set of factors affecting the shape and principles in which the social services market operates; 3) economic function – through criteria of costs, including unit cost, standards determine rationality of the provided service; 4) social function – standards organize the relationship between the way in which social services infrastructure operates and the level of social services satisfaction (they determine the quality of life factor).

The standards can be described taking into account their basic, most characteristic features, including such standard characteristics as: a) minimal – recommended; b) static – dynamic; c) deductive – inductive; d) values – procedures; e) external – internal; f) ratio-based – mechanism-based; g) building corporate culture – providing specific services.

Basic methods of constructing standards include: a) inductive-negotiation method (standard built on the basis of an agreement with the buyer, providers, clients – model standard); b) internal regulations (acceptable self regulation of a given provider of a service or task); c) concession (administrative decision); d) quasi – market (standard is defined or depends on the client); e) administrative (on the side of an entity ordering a given service outside); f) statutory (for example – regulation).

The most important principles accompanying creation of standards are: a) adequacy – relative consistency between the needs of particular groups of clients and the offered scope and quality of services; b) flexibility – using methods, techniques and ways of satisfying needs depending on the situation, within the limits guaranteeing keeping original significance and goal of the performed task; c) framework – possibility of movement within the process of satisfying needs in a relevant, pre-defined range of norms and standards, allowing us, thanks to the possibility of choosing criteria, to act successfully for a particular client or group of clients; d) coherence – correlation of solutions adopted and applied on various levels of managing the social sphere.

The problem of creating standards of social services is an important aspect of the state policy towards the third sector as well as an important element determining the way non-governmental organizations function.

Problems related to standardization of social services comprise: (1) Diagnosing the needs of social groups and individuals: a) the problem lies in attachment of public administration units to obligatory tasks; b) the problem is “the privileged position” of the tasks which have good formal and legal structure and guaranteed financing every year; c) the chance for a new diagnosis lies in applications submitted by non-governmental organizations for open tenders. (2) Formulating goals and priority tasks: a) most frequently, without any diagnostic basis, tasks are chosen for financing if they were lobbied by organized groups of interest (organizations, political parties, clients); b) there is no diagnosis or determined mechanisms to set priorities; c) the problem might also be in widening the list of priorities *ad libitum*, which makes prioritization pointless. (3) Building social strategies and programs: a) lack of strategy in social sphere while there are many strategies of economic development; b) lack of mechanisms of socialized strategy building in social sphere, both long-term and short-term ones; c) lack of strategies and programs concerning priority goals.²

The potential for further growth is significant. As we can see from *McKinsey* analyses, if, in terms of productivity, Poland managed to reach the level of EU-15, the economy could double in size, that is reach the size of the present Italian economy. Today, value added produced by Polish economy equals EUR 705 billion according to purchasing power parity. Reaching the productivity level of EU-15, it could grow by EUR 607 billion, thus exceeding EUR 1300 billion. A significant increase in productivity in Poland might be necessary to keep economic growth, especially due to the situation on the labor market and negative macro-economic trends, further aggravated by demographic problems. Assuming the extreme scenario, in which productivity does not change compared to the present level, for Poland to develop by 3% annually till 2030, the labor market would have to be joined by 7.2 million employees.³ This number does not reflect the predicted decline of the population in production n age by nearly 2.1 people. In order to satisfy the demand for workers, all Poles aged 15-64 would have to be professionally active. In *McKinsey Global Institute* analyses two main sources of economy development are mentioned: increasing number of workers and productivity. Productivity, on the other hand, has three sources of growth: investment in tangible capital, human capital and total factor productivity (TFP). Analyzing the Polish economy growth in 2004-2020 by the above-mentioned factors, we can see that apart from the growing number of workers, growing TFP also played a significant role here (TFP contribution to total growth accounted for a quarter of this growth). This may indicate that companies are using their resources more and more effectively – in

² Public finance management, the Chancellery of the Prime Minister, 2014.

³ Eurostat, Global Innovation Index 2018.

Poland these are usually international corporations investing in intangible capital. However, according to the model of growth proposed by *McKinsey Global Institute*, in the future the quality of the human capital will be more important. Over 40% of the whole economy growth in 2018-2030 may come from this source. Greater share of workers with higher education degrees, qualifications and experience will translate into greater productivity.⁴

It is worth emphasizing that productivity growth is related to competitiveness of the economy and is a key factor positively affecting the welfare.

Firstly, productivity growth and employment growth are often positively correlated. This is clearly visible in Poland, where for the past 5 years both productivity and employment have been growing steadily.⁵

Secondly, in the macroeconomic scale, in many sectors productivity growth comes from higher value of manufactured goods and growing income of companies.⁶

Thirdly, in the microeconomic scale, productivity growth in a company translates into bigger profits (thanks to higher value of manufactured goods and lower cost of their production), which affects clients (lower prices), employees (higher salaries), owners (bigger profits), thus generating economic growth thanks to bigger demand, investments and employment potential (McKinsey & Company, 2017).

The Ministry of Finance estimates that in 2020 Poland's GDP will fall by approximately 3.4%, the sector deficit will account for 8.4% of GDP, public debt calculated with the EU methodology will reach 55.2% of GDP and inflation CPI will reach the level of 2.8% - this data can be found in the latest Convergence Program Update (CPU) adopted by the government on Tuesday.⁷

In the presented macroeconomic scenario, the basic assumption is that limitations comprising society-wide quarantine that are essential for the economic operation will be gradually eliminated, which is coherent with the assumptions of the European Commission (Global Innovation Index 2018). The decline of economic activity in the 2nd quarter of 2020. The Ministry of Finance predicts that in the 3rd and 4th quarter of 2020 the decline of economic activity (quarter-to-quarter) in nearly all sectors of the economy, with the most steep ones, inter alia, in hospitality and catering sectors, activities related to culture, entertainment and recreation, transport

⁴ International Monetary Fund: Republic of Poland – selected issues, 2019.

⁵ European Semester: Country Report – Poland, 2019.

⁶ Analysis on the basis of data of Central Statistical office and McKinsey Global Institute, Outperformers: High-Growth Emerging Economies and the Companies that Propel Them, 2018, 121.

⁷ Convergence program. 2020 Update, Ministry of Finance, 2020.

(especially passenger transport), real estate services and in trade. As a result, in 2020 GDP will decline by 3.4%, for the first time since the beginning of the 1990s. Private consumption will fall in spite of maintaining the growth of disposable income, which will result in further growth of savings held by households (Strategy for Responsible Development until 2020, Ministry of Finance, 2020). Also investment activity will decrease, especially outside the sector of government and self-government institutions. Strong decline of foreign demand for goods and services will negatively affect exports. It was assumed that GDP in the EU countries, that is on major export markets for Poland, will fall by 5.1%.

The dynamics of investment in the sector of government and self-government institutions. The Ministry of Finance predicts that the dynamics of investment in the sector of government and self-government institutions in 2020 will be 4.3%. It is estimated that investments of the sector of government and self-government institutions, after a slight nominal decrease in 2019 (by 2.0% year-to-year) will remain on a similar level in relation to GDP in 2020, that is they will reach 4.3%, and will support the economy in return to the economic growth path after the epidemic threat is eliminated.

The worsening situation on the labor market. The Ministry of Finance did not provide any forecast for the unemployment rate in its CPU. It was only pointed out that visibly weaker economic activity will further worsen the situation on the labor market. The number of the employed will fall, the dynamics of nominal remunerations will drop, the unemployment will grow. It was also assumed that companies will try to keep employment at the cost of lowering the salary dynamics. Preservation of jobs will be aided by the activities proposed by the government within the Anti-Crisis Shield.

The growth of deficit in the sector of government and self-government institutions. The Ministry of Finance forecasts the growth of deficit in the sector of government and self-government institutions from 0.7% of GDP in 2019 to 8.4% of GDP in 2020. The situation of the sector of government and self-government institutions in 2020-2021 will be determined by the forecasted macroeconomic situation and the consequences of decisions taken in order to counteract the spread of the COVID-19 pandemic. The lockdown of some sectors of economy has a significant negative influence on the flow of income in the sector in 2020, whereas activities introduced under the anti-crisis shield, directed mostly at financially supporting enterprises, security of employees, supporting the healthcare system and public investment, will result in abrupt expenditure increase. The size of the public finance imbalance in 2021 will depend on the length of the period in which the economy will operate under limitations, the speed of eliminating such limitations, and the final size of activities undertaken in connection with the pandemic [White 2013, 15-53].

The share of tax income in GDP will decrease. The Ministry of Finance predicts that after the decreased tax income in GDP in 2020, in 2021 the situation should improve. Such strong and sudden worsening of the economic environment forces us to adopt a conservative assumption concerning the size of additional income from activities aimed at tightening the tax system. However, it is assumed that the changes tightening the budget that were introduced in previous years will limit potential threats of abuse in this area. The anticipated acceleration of economic activity in 2021 should positively affect the level of tax income. We can expect that whereas in 2020 the share of tax income in the GDP will decrease, in 2021, thanks to the already-mentioned mechanism of pro-cyclicality this share should improve. The authors of CPU pointed out that the forecast of the sector income in 2020 did not take into consideration one-off income from OFE (Open Pension Fund) transition fees due to the fact that the reform was moved in time. Moreover, in the forecast of income, due to the movement of the retirement system reform, consisting in transforming Open Pension Funds (OFE) into Individual Retirement Accounts, one-off income from the transition fee was not reflected. The influence of these actions on Social Insurance Fund was not reflected, either [Walczak 2019, 5-15]. As we can see in the estimates of the Ministry of Finance, the debt in the sector of government and self-government institutions in 2020 will account for 55.2% of GDP. Public debt management in 2020 will take place in conditions of high deficit of the sector of government and self-government institutions, expected uncertainty on financial markets resulting most of all from the macroeconomic environment, the effects of the fight against the COVID-19 epidemic, and the monetary policy of the National Bank of Poland and the major central banks, including the European Central Bank and Fed. With the adopted assumptions concerning the budget activities taken in order to limit the effects of the epidemic, the debt of the sector of government and self-government institutions in 2020 will account for 55.2% of GDP. Changes in the debt-GDP relation in 2020-2021 will, most of all, be the consequence of the state borrowing needs and the pace of GDP growth. Debt levels will mostly result from changes in the debt of central subsector. Annual Convergence Program Update is an element of the process of budget supervision in the EU and an obligation for all member states of the European Union which do not belong to the euro zone. The program has been prepared in line with the guidelines concerning programs of stability and convergence of the EU member states [Wołowiec 2019, 467-502].

Changes in the system of financing self-government units. The package of protective solutions for self-government stipulated, inter alia, doubling the share of districts in income from the management of the Treasury real estate since 1st April 2020. It also introduced the possibility of imbalance

in the current side of the self-government unit's budget, reflecting the value of the actual loss of tax income, inter alia, from PIT, CIT, local taxes: property, agriculture, forest. It also stipulated the introduction of the possibility of passing the installments of the education, compensatory, balance and regional parts of the general subvention earlier, which is to improve the liquidity of self-government units. Another solution consists in making the expenditure of the means from the so-called 'bottle-cap fund' more flexible in 2020. The money from this fund can be allocated to counteracting and cushioning the effects of COVID-19.

The payments received by the state budget from self-government units whose tax income exceeds income indicators, the so-called "Robin Hood fund", are passed to the specific reserve of the state budget, financing the general subvention. Their amounts are calculated on the basis of tax income of a given unit from the period two years before the current budget year. According to Article 29 of the Act on Territorial Self-Government Units' Income, municipalities in which the tax income indicator per 1 inhabitant exceeds 150% of the indicator determined analogically for all municipalities in the country, make payments to the state budget for the balancing part of the general subvention for municipalities (in case of districts this threshold is set at 110% of the indicator determined for all districts, whereas in provinces – 125% of the indicator determined for all provinces). The means from this fund are then passed – as the balancing part of the general subvention – most of all to self-government units which are financially weaker. The authorities of those self-governments which have to pay particularly large amounts of money have been criticizing the method of calculating for a long time and they alarm the government that they pass too large amounts. Since in 2020 income fell significantly and there was a need to allocate large amounts to fight the corona virus, self-governments began to intervene, pressurizing the government to compensate for the loss of income. One of the main proposals was to exempt them temporarily from the "Robin Hood fund". In the Act on counteracting the effects of the COVID-19 epidemic, covering the support for self-government, the government proposed only postponement of the obligation to pay April and May installments to the second half of the year. According to the position of the Association of Polish Cities, the current regulations concerning this fund require significant changes. The Association, in its opinion on the above-mentioned draft of the Act, proposes the following provision: in 2020, beginning from 1st April, and in 2021, self-government units shall not make payments to the state budget specified in Article 7 section 2 of the Act of 13th November 2003 on income of self-government units⁸ [Wołowiec 2018, 129-40].

⁸ Journal of Laws of 2020, item 23 as amended.

CONCLUSIONS

First of all, smoothing away the difference in productivity of the Polish economy to reach the average EU-15 level. The productivity of the Polish economy is, on average, 50% lower than productivity of Western Europe economies (EU-15). The growing significance of productivity in Poland may be necessary if we want to preserve the economic growth, especially due to the challenges on the labor market and unfavorable demographic trends. In order to achieve this goal it is worth focusing on improving the position of Polish enterprises in the value chain, which means concentration on more complicated processes which generate higher value added, such as production of advanced components instead of only assembling them, for example in cars or household equipment. Another requirement is to develop exports, which already account for over half of the Polish GDP. It is worth concentrating on goods in which we have already gain competitive edge. An example here could be our exports of cosmetics, which have increased nearly fivefold over the past 15 years, or production of yachts, where Polish boats accounted for over 70% of the total value of yacht exports in the EU.⁹ Productivity will also be improved by increased automation, for example in the industrial sector – the application of machine learning and Internet of Things in predictive maintenance of appliances and machines may increase productivity by as much as 20%. In the macroeconomic scale the goal should be to invest mainly in high productivity sectors, therefore also preparing workers and supporting them in finding jobs in more productive sectors of the economy, for example thanks to trainings, information campaigns or financial incentives.¹⁰

Investment growth and capital provision. The share of investments in the GDP fell from 20.1% in 2015 to 18.2% in 2019 (Ministry of Digital Affairs, 2019, GUS, 2019, World Bank: Doing Business, 2019). The 18% of GDP level of investments gives Poland only the 24th place in the European Union. A relatively low level of private and public investment limits the growth rate. According to *McKinsey* estimates in 2030 we might have a shortage of means for investment in the amount of EUR 75 billion.¹¹ The growth of domestic deposits should be supported by tax incentives, which will encourage companies and households to invest and/or save. The interest of households in investment may also be increased thanks to information campaigns on capital markets and offering investment options with various risk levels.¹²

⁹ Comtrade Database Digital McKinsey, Smartening up with Artificial Intelligence (AI) – What's in it for Germany and its Industrial Sector? UN, 2017.

¹⁰ McKinsey analysis on the basis of Eurostat data; Eurostat, data for 2018 and 2019.

¹¹ Poland 2030 – A chance to jump into the economic league, McKinsey & Company, 2019.

¹² State of self-government units finance. Report for the Joint Committee of the Government

On the other hand, in order to ensure a higher level of direct foreign investments, we need to concentrate, *inter alia*, on providing effective information on favorable investment conditions in Poland [Samuelson and Nordhaus 2004, 52-56]. The opening of large infrastructural investments to foreign capital and encouragement to co-invest (for example in the form of public-private partnership and other forms of investment cooperation), as well as streamlining the administration responsible for servicing investments, especially coordination of activities of government institutions, may result in the growing interest of foreign investors [Stiglitz 2001]. Capital can be encouraged to invest in the domestic market through partnerships with global financial institutions, as a supplement to activities of local administration and business “diplomacy” [Rutkowski 2015, 277-85; Sawicka 2010, 60-62].

Increasing innovativeness. Expenditure on research and development as percentage of the GDP has not increased significantly since Poland’s accession to the EU. In 2004 it accounted for 0.6% of the GDP, and since 2018 it has been only 1.8%. In the EU the average level of such expenditure is twice as much. Low level of expenditure on research and development in Poland results in low level of economy innovativeness [Sawulski 2016, 15]. In the Global Innovation Index Poland occupies the 24th place in the EU. In order to stimulate innovativeness it is worth supporting the creation of innovative enterprises, using for example business incubators. On the other hand, promotion of Poland as location for research and development centers of large corporations may provide, through access to capital and trained staff or provision of financial incentives, *inter alia* financing of part of research costs.¹³

Investment in human capital. The number of people who are professionally active fell by 200 thousand in total in 2015-2018. Investment in human capital will allow us both to increase productivity in sectors and to achieve free flow of human capital to more productive industries. Another vital area is the fight with negative demographic trends in the labor market. Their effects can be counteracted, *inter alia*, by increasing the professional activity ratio among women. Another solution may be to increase employment flexibility and to relieve people of caring activities, which are mostly performed by women, by offering better access to crèches, kindergartens or retirement homes.

Business support, state of public services. The quality of public services or the ease of doing business have not changed significantly over the past years. In the “Doing Business 2019” ranking Poland still occupies a place

and Self-Government for the session on 17th July 2019, supplemented after the debate at the meetings of the Committee and Team, developed by A. Porawski and J. Czajkowski, Związek Miast Polskich, Poznań 2019.

¹³ World Bank, Doing Business, 2019.

in the fourth ten among 190 countries. Keeping the fast rate of growth depends on many factors, such as easy of doing business, an effective tax system or modern transport, energy and telecommunication infrastructure. In these areas Poland has much to improve. In order to support development of business it is worth simplifying and shortening administration and court procedures, including, inter alia, simplification of the tax system, provision of legislative stability or a guarantee of construing ambiguous tax regulations to the taxpayer's advantage. Also investments in energy solutions limiting our energy demand and in renewable energy sources will be of vital importance. The factors that contribute to the improvement of the living standards of inhabitants also contribute to the economic development of the country. Therefore projects directly related to nature protection, such as supporting sustainable (circular) economy or developing strategies for environment protection and reflecting them in government programs may become a top priority. This also concerns ensuring appropriate level of expenditure on health, its effective use, better coordination of healthcare and prevention, taking into account promotion of a healthy lifestyle.

Financial problems of the self-government sector [Wołowiec and Bogacki 2019, 7-27]. The Act on Self-Government Income, passed in 2003 and still valid, assumed increasing the amount of own income, including share in income from PIT and CIT taxes, while decreasing the scope of subsidies and eliminating the road part of the general subvention. It was assumed that it would result in increasing financial independence of self-government units and stronger ties between their financial situation and the economic cycle of the country. The Polish self-government reform set a number of tasks for local and regional communities, the most important ones being local and regional development. This is manifested in the following data – investment expenditure of decentralized budgets reached over PLN 535 billion (cumulatively) in the period from 2004 to 2020, thus exceeding considerably investment expenditure of the central budget. Self-governments' own investment potential (gross operational surplus) in this period was PLN 232.8 billion, which means that 56% of investment expenditure of self-government units were financed with the means obtained from other sources, including repayable instruments (mostly loans) [Wołowiec 2021b, 7-20].

Most of the contracted obligations (PLN 113 billion) has already been paid back, which accounts for the fact that net operational surplus over the past 15 years was only PLN 109.7 billion. There is still around PLN 65.1 billion to be repaid. The summary of data provided below shows that self-government units obtained over PLN 170 billion for investments from other sources (mainly from the EU funds). Taking these proportions into account it must be emphasized that each decrease of the operational surplus of the self-government sub-sector will result in over 2.5-fold decrease of the

investment level in this sector (less funds for own share and lower credit-worthiness). This will also lead to the decline in the tax income for the state (especially VAT tax).

Recently new factors have emerged which account for the growing current costs of self-government sub-sector. These are: prices of energy, construction materials and consumables, prices of services, fees for using water resources, etc. This translates not only into current expenditure of local authorities, but also affects the level of prices of local public services. An additional problem concerning current expenditure of local authorities lies in forcing self-government units (districts, cities with district rights and provinces) to take over debts and losses of hospitals. Self-governments were called "founding organs" of hospitals, which they had never founded and over whose operations they have little influence: they do not allocate any means for this purpose, do not have any influence on salaries in healthcare or on the scope and valuation of services included in the so-called health insurance. Burdening them with hospital debts is an insult to the principles of social justice. As a result the extra payment from local authorities own means to the subvention increased by other current income of education was PLN 8.31 billion (33.1% of the subvention). The subvention covered 98% of salary expenses. The low dynamics of the education part of the general subvention in the next years, especially its underestimation in 2017-2019 and insufficient financing of the costs of the education reform resulted in the financial deficit of education in the amount of PLN 24.5 billion in 2019 (that is extra payment from own means accounted for 55.% of the received school subvention). The subvention was enough only to cover 85% of salary expenses, over which local authorities have no influence. This financial deficit is strongly differentiated in various categories of self-government units (data for 2018): in districts it is 12%, in provinces – 33%, in rural municipalities – 48%, in rural and town municipalities – 62%, in town municipalities – 76% and in cities with district status – nearly 64%. It should be added that in 2017-2019 the property expenditure in education, not covered with the subvention and the above graph nearly doubled (in total by nearly PLN 7.5 billion). They were caused by the necessity to adjust schools, especially primary ones, to the reform requirements. The situation of education is increasingly influencing the general state of the self-government finance, limiting not only the possibilities of financing local development, but also lowering the quality of public services [Wołowiec 2020a, 58-72; Idem 2020b, 49-68].

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