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DIRECTIONS FOR RATIONALISATION OF THE PUBLIC FINANCE SYSTEM IN THE EVENT OF THE COVID-19 CRISIS

KIERUNKI RACJONALIZACJI SYSTEMU FINANSÓW PUBLICZNYCH W NASTĘPSTWIE KRYZYSU COVID-19

ABSTRACT

Public financial management is of the most global and complex nature. At this level, decisions are made that determine everything related to the collection and spending of public funds. However, we must be aware that at this level there are the greatest political entanglements, which are subject to transformation and are inextricably accompanied by changes in government teams and cooperating party coalitions. This causes general recommendations to be formulated on how to manage public funds. Discussions are held in the government or parliament forum focused on finding ways to reduce expenses. Another direction of political debates leads to a turn towards public revenues. This is expressed, for example, by striving to reduce the tax burden. The attention is therefore focused on two sides of the financial economy, i.e. on the processes of collecting and spending public funds.

KEYWORDS: *public finances, rationalization of income and expenses, macroeconomics, public management*

STRESZCZENIE

Zarządzanie finansami publicznymi ma najbardziej globalny i złożony charakter. Na tym poziomie zapadają decyzje, które warunkują wszystko to, co wiąże się z gromadzeniem i wydatkowaniem środków publicznych. Trzeba jednak zdawać sobie sprawę, że na tym szczeblu są największe uwikłania polityczne, które ulegają przekształceniom, a towarzyszą nierozłącznie zmianom ekip rządowych i współdziałających ze sobą koalicji partyjnych. To powoduje, że formułowane są ogólne zalecenia, do sposobu gospodarowania środkami publicznymi. Prowadzone są dyskusje na forum rządu czy parlamentu skoncentrowane na poszukiwaniu możliwości ograniczenia wydatków. Inny kierunek dysput politycznych prowadzi do zwrócenia się w stronę dochodów publicznych. Wyrazem tego jest np. dążenie do zmniejszenia obciążeń podatkowych. Uwaga koncentruje się zatem na dwóch stronach gospodarki finansowej, czyli na procesach gromadzenia i wydatkowania środków publicznych.

SŁOWA KLUCZOWE: *finanse publiczne, racjonalizacja dochodów i wydatków, markoekonomia, zarządzanie publiczne*

INTRODUCTION

Public finance management is the most global in nature. At this level, decisions are made that determine everything related to the collection and spending of public funds. However, we must be aware that at this level there are the greatest political entanglements, which are subject to transformation and are inextricably accompanied by changes in government teams and cooperating party coalitions (Begg, Fisher, Dornbush 2014). This causes general recommendations to be formulated on how to manage public funds. This is expressed by various slogans, e.g. *cheap state*, which is supposed to mean a reduction in administrative expenses. In such a context, discussions are held in the government or parliament, focused on finding ways to reduce expenses. Another direction of political debates leads to a turn towards public revenues. This is expressed, for example, by striving to reduce the tax burden. Attention is focused therefore, on two sides of the financial economy, i.e. on the processes of collecting and spending public funds. In this system, what is fundamental, i.e. the ability to manage public funds, often disappears from view. As already stated, this cannot take a general form. There is no uniformity in the area of public finances, even though the general assumption is the same for all areas (Bossak 2008).

Public funds should be managed in such a way that they are used effectively, that is, they contribute as much as possible to meeting the social needs of various groups and social strata. Referring to the above-mentioned areas of public finance management from the institutional and substantive point of view, it is necessary to point out the essence and characteristic features of this process within such basic institutions as the state budget and the budgets of local government units at all levels. From this perspective, it is necessary to indicate what the management of state budget funds should be based on (Burzec, Duda, Jędrzejczyk, Kucia-Guściora, Munnich, Pomorski, Smoleń 2012).

The traditional budget, whose basic element of the constitution is the budget classification, must evolve towards a *task-project* budget, flexible and effective in management. At this point, it can only be added that the current rigid budget management framework on the one hand and the system of individual first-level administrators on the other hand actually greatly limit the possibilities

of rational management of public funds. A very important area of public funds management is the management of their surplus or shortage. Since a deficit in the form of a budget deficit turning into public debt is a common phenomenon, it requires special attention. At this point, it is important to distinguish the stream nature of income and expenditure, which concerns a specific period of time, such as a calendar year, from the accumulating deficit, which leads to considerations devoted to problems related to public debt (Dylewski, Filipiak, Gorzałczyńska-Koczkodaj, Ziolo 2014).

Neither the phenomenon of budget deficit nor public debt can be treated *actionally* (i.e. actions are taken to e.g. reduce the deficit). This requires a long-term perspective and must be managed not incidentally, but on a long-term basis. For this reason, the management of the above-mentioned phenomena is particularly important. For example, it may turn out that it is necessary from a rational and effective point of view to use public funds to temporarily increase the deficit. Such a decision cannot be of a political nature, but should result from economic and social reasons. This area of public funds management is of fundamental importance and requires the use of appropriate methods, i.e. adapted to the nature of the regulated phenomena. The above comments relating to the state budget apply to the budgets of local government units. In this case, however, the management of public funds has not only references to decision-making bodies, e.g. councils at the appropriate level, but also has institutional support in the Regional Chambers of Audit (Dębowska-Romanowska 2010).

REASERCH METHODOLOGY

Induction was used as the main research method. It involves drawing general conclusions or establishing regularities based on the analysis of empirically identified phenomena and processes. This is a type of inference based on details about the general properties of a phenomenon or object. The use of this method requires the assumption that only facts can constitute the basis for scientific inference. These facts are actually occurring situations (social, legal or organizational). Inductive methods include various types of analyses,

expert opinions, statistical data and scientific documents used in social research. Moreover, the work uses two general research methods, i.e. analytical and synthetic methods, characterized by a specific approach to the study of reality. The analysis treats reality as a set of individual, specific features and events. This research method involves breaking down the research object into parts and examining each of them separately or detecting the components of the object. A negative feature of the analytical method is the excessive emphasis on details, which sometimes causes us to lose sight of the whole subject of research. This makes it difficult to fully and objectively understand reality, which is indeed a collection of independent partial elements, but at the same time a set of parts closely related to each other to form a limited whole. The synthetic method treats reality as a set of features, its implementation involves searching for common features of various phenomena and events and then combining them into a unified whole. Therefore, the synthetic method examines and determines the entire subject of research. Due to this multi-dimensional treatment of public finances (economic, legal and managerial), the following research methods were used in the article:

1. logical-linguistic methods, developed in the form of formal-logical and linguistic analysis (comparison of legal regulations taking into account formal logic and legal methodology);
2. argumentative and hermeneutic methods;
3. axiological methods;
4. historical methods;
5. comparative methods.

NPM IN PUBLIC SECTOR

The concept of New Public Management has had the greatest impact on the current shape of public services in the world. The roots of this concept come from Great Britain. In the 1980s, the organization and management of British public services came under pressure for change. New management concepts in the public sector began to be created, which became an inspiration for many OECD countries in reforming public administration. It was clearly visible that

the fundamental change postulated in the New Management in the Public Sector was the method of financing and management style, as well as the clear expression of the organization's goals and their implementation. There were also clear efforts to increase the controllability of the public service system (Hood 1995, Hood 1999). Over recent years, the above assumptions have been modified and expanded. As a result, organizational paradigms for the reform of public institutions were created.

Four concepts were invented according to which reforms were to be carried out as part of New Management in the Public Sector (Czarnecki 2011):

- NPM Model 1. Increasing efficiency;
- NPM Model 2. Decentralization and *slimming the public sector*;
- NPM Model 3. In Search of Excellence;
- NPM model 4. Public service orientation.

Recent decades have been characterized not only by a significant development of the third sector, but also by the growing participation of civic movements and non-profit organizations in planning public policies at the national (and EU) level and the growing importance of social activity in local development. This trend has been clearly noticed in the European Union, where the principles of subsidiarity, partnership and social dialogue lead to the postulate of gradually expanding the scope of cooperation between public institutions and civil society organizations.

Therefore, the basic question is not *Should we cooperate?* but *How to cooperate?* In the system of inter-sectoral cooperation, the state performs two, partially independent functions.

Firstly, the state is one of the actors of this cooperation, interacting with the others (state – business sector, which is also referred to as public-private partnership and state – non-governmental sector, i.e. public-social partnership).

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

In Europe, two models of cooperation between public administration and non-governmental organizations in the area of public benefit (social

benefit) dominate: the German and English models. The German model is characterized by (1) full implementation of the principle of state subsidiarity, operationalized in the legal system as the principle of priority of social entities in the provision of social services using public funds, and (2) the corporate 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 construction of structures in it compatible with public administration structures and capable of negotiating the terms of cooperation at every level of the state's administrative division (Gasik 2017).

The English model is characterized by (1) greater openness to competition between service providers and, consequently, a greater role of market (or quasi-market) mechanisms in the system of contracting public tasks, as well as (2) the resulting lack of preferences for non-governmental organizations. It is no coincidence that in Great Britain we talk about the state's cooperation with the *independent sector*, defined as all for-profit and non-profit entities interested in participating in tenders for contracting public tasks. Moreover, the principles of intersectoral cooperation are shaped to a greater extent by public-private partnerships than public-social partnerships. Both models have their strengths and weaknesses identified and described in the literature. It is worth noting that standardization in the German model is aimed at (1) maintaining high quality of social services and (2) securing the continuity of their provision. The consequence of this second goal is the statization of non-governmental organizations. In the English model, standardization serves primarily efficiency, which in practice means reducing the costs of maintaining the social services system.

In both models, standardization of cooperation serves to professionalize the third sector. However, this is a different type of professionalization. Non-governmental organizations in Germany, by becoming professional, become similar to public institutions and adopt their standards and organizational culture. In turn, the English version of professionalization means non-governmental organizations becoming more similar to commercial companies, both in terms of management (searching for profit or even balance sheet surpluses) and work culture. A side effect of the German model is the above-mentioned statization of social organizations, and of the English

model – the commercialization of the non-profit sector. In the case of both countries, the currently implemented recovery program involves attempts to popularize elements of the competitive model in their own models. Great Britain introduces elements of negotiations characteristic of the corporate approach (this is what the idea of the above-mentioned pact comes down to), and Germany introduces elements of competition, opening one of the segments of the social services market to commercial entities. When undertaking work on the standardization of social services, efforts should still be made to develop compromise solutions combining elements of both models mentioned above. Standardization of services is the process of gradually specifying the answer to the question of what, in what quantity and at what level can be offered as part of a given service to specific individuals and groups, adequately to their identified needs and in accordance with the requirements of rationally satisfying them (Hernaus, Vuksic, Štemberger 2016).

NPM STANDARDS

Standards are created because they perform a number of specific, useful functions, including (Zarządzanie finansami publicznymi – narzędzia zarządzania finansami publicznymi oraz efektywne sposoby wydatkowania środków publicznych, Kancelaria Prezesa Rady Ministrów, MDDP 2014):

- standard-setting function – standards formally and organizationally determine the model arrangement of relations between technical, organizational and qualitative criteria for service provision and the needs in this area;
- stimulating function – standards as a set of factors influencing the shape and principles of functioning of the social services market;
- economic function – through cost criteria, including unit cost, standards determine the rationality of the service provided;
- social function – the standards organize the relationship between the functioning of the social services infrastructure and the level of satisfaction of social needs (they define the quality of life factor).

Standards can be described according to their basic, most characteristic features, which include the following characteristics of standards:

- minimal – recommended;
- static – dynamic;
- deductive – inductive;
- values – procedures;
- external – internal;
- based on indicators – based on mechanisms;
- build organizational culture – provide specific services.

The basic methods of constructing standards are:

- inductive-negotiated (standard built based on the buyer's agreement, suppliers, customers – model);
- internal regulations (accepted self-regulation of a given service provider or tasks);
- concession (administrative decision);
- quasi-market (standard defined or dependent on the client);
- administrative (on the part of the party ordering a given service externally);
- statutory (example – regulation).

The most important principles accompanying the construction of standards are:

- adequacy – relative compliance between the needs of specific customer groups
- and the scope and quality of services offered;
- flexibility – the use of methods, techniques and ways of meeting needs depending on the situation, within limits that guarantee the preservation of the original meaning and purpose of the task being performed;
- framework – the ability to navigate the process of meeting needs in an appropriate,
- established range, range of norms and norms, allowing, thanks to the possibility

- selecting criteria, acting effectively for a specific client or group of clients;
- coherence – correlation of solutions adopted and used at various levels of social management.

The issue of creating standards for social services is an important aspect of state policy towards the third sector, as well as the functioning of non-governmental organizations themselves.

Problems related to the standardization of social services include:

1. Diagnosing the needs of social groups and individuals:
 - the problem is the attachment of public administration units to mandatory tasks;
 - the problem is the *privileged position* of those tasks that have a good formal and legal framework and guaranteed annual financing;
 - applications submitted by non-governmental organizations to open competitions for offers are an opportunity for a new diagnosis.
2. Formulating goals and priority tasks:
 - most often, without a diagnostic basis, those tasks that are selected for financing are:
 - organized interest groups (organizations, political parties, clients) lobbied;
 - lack of diagnosis and established mechanisms for setting priorities;
 - expanding the list of priorities *ad libitum* may also be a problem, which defeats the purpose of prioritization.
3. Creating social strategies and programs:
 - lack of a strategy in the social sphere despite the presence of numerous economic development strategies;
 - lack of mechanisms for socialized strategy creation in the social sphere, both
 - long-term and short-term;
 - lack of strategies and programs regarding priority objectives.

THE EFFECTS OF THE PANDEMIC ON THE PUBLIC FINANCE SECTOR – SELECTED ASPECTS

The potential for further growth is significant. According to McKinsey analyses, if Poland managed to reach the EU-15 level in terms of productivity, the economy could be twice as large, i.e. reach the size of the current Italian economy. Today, the added value produced by the Polish economy amounts to EUR 705 billion at purchasing power parity. By reaching the EU-15 productivity level, it could increase by EUR 607 billion, to over EUR 1.3 trillion. A significant increase in productivity in Poland may be necessary to maintain economic growth, in particular due to the situation on the labor market and unfavorable macroeconomic trends, additionally reinforced by demographic problems. Assuming an extreme scenario in which productivity does not change compared to the current level, Poland can develop at a rate of 3% by 2030. annually, the labor market would have to supply 7.2 million workers. This figure does not take into account the projected reduction in the working-age population by almost 2.1 million people. To meet the demand for employees, in such a scenario, all Poles aged 15-64 would have to be professionally active. In its analyses, the McKinsey Global Institute specifies two main sources of economic development: an increase in the number of employees and productivity. However, productivity growth has three main sources: investments in physical capital, human capital and total factor productivity (TFP). After dividing the growth of the Polish economy in 2004-2019 into the above-mentioned factors, it can be seen that, apart from the increase in the number of employees, the increase in TFP played an important role (the contribution of TFP to the total growth was one quarter). This may indicate that companies are using their resources more and more effectively – in Poland these are usually foreign corporations investing in intangible capital. However, according to the McKinsey Global Institute's growth model, it will become increasingly important in the future will have a qualitative component of human capital. Over 40 percent the entire economic growth in 2018-2030 may come from this source. A greater share of employees with higher levels of education, qualifications and experience will translate into higher productivity.

It is worth emphasizing that productivity growth is related to the competitiveness of the economy and is a key factor positively influencing prosperity. First, productivity growth and employment growth are often positively correlated. This is clearly visible in the example of Poland, where both productivity and employment have been increasing for 5 years. Second, on a macroeconomic scale, in many sectors, productivity growth comes from the higher value of goods produced and growth in corporate revenues. Thirdly, on a microeconomic scale, the increase in productivity in the company translates into the highest profit (thanks to the higher value of the goods produced and the lower cost of their production), which goes to customers (lower prices), employees (higher salaries), owners (higher profits), generating growth economical thanks to greater demand, investment and employment potential (Polska 2030 – Szansa na skok do gospodarczej ekstraklasy, McKinsey & Company 2019, GUS i McKinsey Global Institute, Outperformers: High-Growth Emerging Economies and the Companies that Propel Them 2018; Międzynarodowy Fundusz Walutowy: Republic of Poland – selected issue, 2019, OECD, Eurostat, Global Innovation Index 2018; GUS; NBP; Komisja Europejska 2019 European Semester: Country Report – Poland; Strategia na rzecz Odpowiedzialnego Rozwoju do roku 2020 (z perspektywą do 2030 r.).

W prezentowanym scenariuszu makroekonomicznym podstawowym założeniem jest przyjęcie, że ograniczenia składające się na ogólnospołeczną kwarantannę istotne dla funkcjonowania gospodarki będą stopniowo znoszone, co jest spójne z założeniami Komisji Europejskiej Program konwergencji. Aktualizacja 2020, Ministerstwo Finansów 2020, www.mf.gov.pl.

The package of protective solutions for local governments included, among others: doubling the share of counties in income from real estate management of the State Treasury from April 1, 2020. The possibility of imbalance of the current side of the local government budget was also introduced, additionally by the value of the actual loss in tax revenues, among others. from PIT, CIT, local taxes: real estate, agricultural, forestry. It is also planned to introduce the possibility of transferring installments of the educational, compensatory, balancing and regional general subsidy installments at earlier dates in 2020, which is intended to improve the liquidity of local government units. Another solution is to make the spending of funds from the so-called cork fund in 2020.

Money from this fund can be used to counteract and mitigate the effects of COVID-19. In 2020, over 150 local governments will pay PLN 2,938 million to the state budget as part of the *Janosik* program. Payments to the state budget by local government units whose tax revenues exceed income indicators, i.e. the so-called *janosik*, are transferred to the special-purpose reserve of the state budget, financing the general subsidy. Their amount is calculated based on the tax revenues of a given entity from two years ago in relation to the current financial year. Pursuant to Art. 29 of the Act on the income of local government units, communes in which the tax revenue rate per commune inhabitant is higher than 150 percent of the index determined analogously for all communes in the country, make payments to the state budget, earmarked for the balancing part of the general subsidy for communes. (in the case of poviats, this threshold is set at 110 percent of the rate set for all poviats, and in the case of voivodeships, 125 percent of the rate set for voivodeships). The funds from the *Janosik* fund are later transferred – as a balancing part of the general subsidy – primarily to financially weaker local governments. The authorities of those local government units that have to pay particularly large amounts have long been criticizing the method of calculation and raising alarm that they pay too high amounts. Since revenues dropped significantly in 2020, and there was a need to spend large amounts of money in an unforeseen manner to fight the coronavirus, local governments began to intervene to ensure that the government somehow compensated the revenues lost by local government units. One of the main proposals is a temporary exemption from *Janosik*. However, in the act on counteracting the effects of the COVID-19 epidemic, which includes support for local government units, the government only proposed to postpone the obligation to pay the April and May installments to the second half of the year. In accordance with the position of the Association of Polish Cities, the current regulations regarding *Janosik* require significant changes, proposing, as part of the opinion on the above-mentioned draft act, the following provision: in 2020, starting from April 1, and in 2021, local government units will not make payments to the state budget referred to in Art. 7 section 2 of the Act of November 13, 2003 on the income of local government units (consolidated text: Journal of Laws of 2020, item 23, as amended). The ZMP cited data for 2018, stating that at

that time the state budget allocated approximately PLN 12.8 billion to local government units as part of the equalization system. It was proposed to support local government budgets in many aspects – from creating tools enabling direct financial assistance from the central budget, through relaxing fiscal restrictions, to obtaining additional income or generating savings – we read in the justification for the above-mentioned government project. The government has calculated that in total, the loss of revenues in local government budgets across the country may reach 10%. – i.e. PLN 13.5 billion (Polish Metropoli Associated 2022).

HOW TO MODERNIZE PUBLIC FINANCES TO DOUBLE THE SIZE OF THE POLISH ECONOMY BY 2030?

Firstly. Eliminating the difference in the productivity of the Polish economy compared to the average level of the EU-15. The productivity of the Polish economy is on average 50 percent higher. lower than the economies of Western Europe (EU-15). Significant increases in productivity in Poland may be necessary to maintain economic growth, in particular due to challenges in the labor market and unfavorable demographic trends. To achieve this goal, it is worth focusing on improving the position of Polish enterprises in the value chain, which means focusing on more complex processes generating higher added value, such as the production of advanced components instead of only installing them in e.g. cars or electronics and household appliances. Another condition is the further development of exports, which already constitute over half of Polish GDP. It is worth focusing on goods in which we have already gained a competitive advantage. Examples include the export of cosmetics, which has increased almost fivefold over the last 15 years, or yachts, where Polish units accounted for over 70%. the overall value of yacht exports in the EU. Productivity will also be improved by increasing the scale of automation, e.g. in the industrial sector, the use of machine learning and the Internet of Things, e.g. in the predictive maintenance of devices and machines, can increase productivity by up to 20%. On a macroeconomic scale, the goal should be to invest mainly in high-productivity sectors, and therefore also to prepare employees and support them in finding jobs in more productive sectors of

the economy, e.g. through training, information campaigns or financial incentives (McKinsey 2018, 2019, ONZ, Comtrade Database Digital McKinsey, Smartening up with Artificial Intelligence 2017).

The share of investment in GDP decreased from 20.1 percent. in 2015 to 18.2 percent in 2019 (Eurostat; Ministerstwo Cyfryzacji, www.gov.pl/web/cyfryzacja; GUS; Bank Światowy, Doing Business 2019). Investment level of 18%. GDP in 2018 places Poland only in 24th place in the European Union. The relatively low level of private and public investment limits the pace of growth. According to McKinsey estimates in 2030 Poland may lack up to EUR 75 billion of investment funds. Tax incentives that encourage enterprises and households to invest and/or save should help ensure the growth of domestic deposits. Households' interest in investing can also be increased through information campaigns on capital markets and offering investment options with different levels of risk. In turn, to ensure a higher level of foreign direct investment, we should focus, among others, on: on effective information about favorable investment conditions in Poland. Opening large infrastructure investments to foreign capital and encouraging co-investment (e.g. in the form of public-private partnerships and other forms of investment cooperation), as well as improving the functioning of the administration responsible for investment management, in particular coordination of the activities of government institutions, may increase the interest of foreign investors. Capital can be encouraged to invest in the domestic market through partnerships with global financial institutions, complementing local administration activities and economic *diplomacy* (Polska 2030 – Szansa na skok do gospodarczej ekstraklasy, McKinsey & Company 2019).

PROBLEMS AND DIRECTIONS OF REFORMS OF LOCAL GOVERNMENT SECTOR FINANCES

Financial problems of the local government sector. The Act on local government revenues, adopted in 2003 and still in force today, assumed an increase in the amount of own revenues, including shares in PIT and CIT tax revenues, while reducing the scope of subsidies and eliminating part of the

general road subsidy. The result was to increase the financial independence of local government units and a stronger link between the financial situation of local government units and the economic situation of the state. The Polish local government reform has assigned many important tasks to local and regional communities, one of the most important of which is local and regional development. This is evidenced by the following data – investment expenditure of decentralized budgets amounted to over PLN 535 billion (cumulative) in the period from 2004 to 2020, which is clearly more than the investment expenditure of the central budget. The own investment potential of local governments (gross operating surplus) amounted to PLN 232.8 billion in this period, which means that 56% of the investment expenditure of local government units was financed from funds obtained from other sources, including repayable instruments (Wołowiec 2019, Wołowiec & Bogacki 2019, p. 7-27, Wołowiec 2018, p. 129-140).

A significant part of the incurred liabilities (PLN 113 billion) has already been repaid, which resulted in the net operating surplus amounting to only PLN 109.7 billion over these 15 years. At the end of 2019, approximately PLN 65.1 billion remained to be repaid. The summary of data below shows that local government units obtained over PLN 170 billion for investments from other sources (mainly EU funds). Taking these proportions into account, it must be clearly stated that any reduction in the operating surplus of the local government subsector will mean a more than 2.5-fold reduction in the level of local government investments (fewer funds for own shares and lower creditworthiness). This will also result in a decline in state tax revenues (especially VAT). The structure of local government revenues has changed significantly in recent years – the share of own revenues and subsidies has decreased, and the largest part has become – originally the smallest – subsidies.

- the share of own income decreased from 31 to 25.2%,
- the share in revenues from state taxes (PIT and CIT) increased from 22.7 to 24.1%,
- the share of the general subsidy decreased from 29.5 to 22.4%, including the educational part – from 22.9 to 17.1%,
- the share of subsidies increased from 16.9% to 28.3% (including targeted subsidies to 22%).

The relatively low dynamics of classic own income was caused by several factors, including:

- statutory changes in local taxes and fees (mainly new real estate tax reliefs and exemptions),
- slight indexation of the maximum rates of taxes and local fees by the Minister of Finance,
- subsequent phases of transformation of perpetual usufruct into ownership, resulting in a decline in income from property,
- local tax relief and exemptions granted by the relevant local government authorities as part of local tax policy.

The best dynamics – despite the collapse in 2008-2011 caused by statutory changes, is characterized by the share of local government units in the state budget revenues from personal income tax, which increased from PLN 20.5 billion in 2006 to over PLN 52 billion in 2019. Only in 2015-2018 the increase amounted to PLN 12.8 billion (from PLN 38.1 billion to PLN 50.9 billion). The increase in the share of local government units (mainly voivodeships) in CIT revenues was less important – from PLN 6 billion in 2006 to PLN 9.7 billion in 2018 (i.e. by almost 62%).

The importance of funding based on the redistribution of financial resources from the state budget in the form of a general subsidy is decreasing, especially its most important component – the educational part. With regard to the educational part of the general subsidy, the 2003 Act maintained the principle that part of the educational tasks were carried out from funds received from the state budget, and part from own income. It was assumed that the subsidy would be determined annually in the Budget Act, in the amount of the total amount of the educational part of the general subsidy, adopted in the Budget Act in the base year, adjusted by the amount of other expenses due to changes in the educational tasks implemented. The dynamics of educational subsidies was surprisingly low in the period in question:

- own revenues increased from PLN 62.9 to PLN 124 billion (by 97%),
- the educational part of the general subsidy increased from PLN 26.8 billion to PLN 43 billion (by 60%).

At the same time, local government expenditure on education more than doubled (by as much as 111%), which was caused by the increase in the costs of providing education, also as a result of the education reform of 2015. During the period in question, the correction and compensation system also lost its original importance, especially for voivodeships and poviats. This was caused by the non-systemic nature of the purely arithmetic solutions adopted in 1999. The municipal system, containing a double equalization mechanism (also in the educational part), was based on substantive criteria, which is why it still functions, although it also requires updating (Wołowiec 2018, p. 9-17, Wołowiec 2018, p 83-114, Wołowiec 2020, p. 58-72, Wołowiec 2020, Wołowiec 2019, p. 25-31).

CONCLUSIONS

Maintaining the stability of public finances may turn out to be one of the greatest challenges of Polish economic policy in the next few years. Analyzing Polish public finances, the following conclusions can be drawn:

- The rate of fiscalism in Poland is lower than the average in the EU, but does not differ significantly from the average rate of fiscalism in CEE countries.
- Public revenues in Poland are characterized by a high share of social security contributions. Poland is particularly distinguished by the amount of income from contributions paid by self-employed people. Since 2009, Polish public finances have seen a decline in revenues from indirect taxes, which is significantly influenced by the deteriorating VAT collection.
- The ratio of tax and contribution income to the potential tax base in Poland is relatively low in the case of consumption and comparable to other EU countries in the case of work. However, labor taxation is among the most linear among OECD countries. Taxation of capital (ITR index) and investments (EATR index) in Poland is higher than the average in other CEE countries, but lower than the average for the entire EU (Sawulski 2016, p. 26-28).

- The structure of public expenditure in Poland is characterized by a high share of expenditure on social protection, including primarily benefits related to aging and benefits for the families of the deceased. Relatively high public expenditure is also spent on education, mainly higher education, and national defense. At the other extreme, among the categories on which relatively little is spent in Poland, there are: health care, where the low level of investment expenditure is particularly visible, and general state activities (public administration and interest on public debt). (Stan finansów JST, Związek Miast Polskich 2019).
- Between 2004 and 2014, the share of spending on social transfers in GDP in Poland decreased by 1.8 points. percent which was the largest decline among all EU countries. In most EU countries, a significant increase in spending on social transfers occurred in 2009 in connection with the global financial crisis. This phenomenon did not occur in Poland. A characteristic feature of the evolution of public finances in Poland in 2004-2014 was a two-fold increase in public expenditure on investments, mainly on investments in transport infrastructure. In 2010 and 2011, Poland was the country with the highest share of public expenditure on investment in GDP in the EU, and in the following years it also remained at the forefront.
- The general government deficit in Poland is higher than the average in EU and CEE countries. Polish fiscal policy is characterized by the great importance of discretionary actions of public authorities and a relatively small impact of the cyclical component on the balance of the public finance sector (Wołowicz 2019, p. 25-31).

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