STABILISATION AND CHANGES IN THE PUBLIC FINANCE SYSTEM

Abstract
The subject of the deliberations is the public finance system, which is treated as an organised system consisting of a set of rules constituting a whole. The paper aims to present stability of the public finance system. It is emphasised that it cannot be equated with the invariability of its elements. This has led to a formulation of a hypothesis that changes that are made do not have to be contrary to the stability of the public finance system. Stability is characterised by striving for an arrangement that allows, in the long run, predicting the form it will take. It is assumed that this requires changes that are influenced by many factors. They are entangled with legal, organisational and instrumental arrangements. Public authorities make decisions on changes basing not only on financial premises, but also on those that secure their interests (political premises) of staying in power. In conclusion, seven factors that influence the scope of public finance are identified and discussed. Against this background, the factors determining changes are presented, distinguishing between monetary and non-monetary factors. In conclusion, it is stated that the changes introduced must be coordinated with each other.

Keywords: financial system, public finance, determinants of changes in the public finance system, system stability

The present discussion is devoted to the public finance system, which plays a crucial role in every state. Public finance is a tool used by the government to influence society (voters) and the economy (businesses). Numerous changes are characteristic features of the public finance system. This raises a question that needs to be answered: what are the factors that trigger these changes? Public finance is the part of finance that creates monetary phenomena and processes. However, this is not sufficient to consider public finance in a comprehensive and structured manner. It is necessary to introduce a notion of a financial system. In a dictionary definition, a system is ‘a comparison, a comprehensive and organised arrangement, a set of objects, principles, statements, rules of conduct’ [Kopaliński 1967, p. 732]. We can also assume, in a simplified manner, that a system is a whole unit consisting of inter-related elements. The financial system involves a set of principles, legal norms and financial institutions and some other elements that regulate monetary relations in the state. {Eventually we may quote Owsiak: ‘(...) as a set of logically interrelated organizational forms, legal acts, financial institutions and other elements that enable entities to establish financial relations in both the real sector and the financial one.’} [Owsiak 2015, p. 246]. The financial system is a derivative, effect, or reflection of the state’s financial policy. The financial policy is divided into monetary (money) policy pursued by an independent central bank and fiscal policy. The latter is closely related to the public finance system, and it is the government (state) that is responsible for it. Therefore, a hypothesis has been put forward that changes in the system of public finance are induced by both monetary (financial) and non-monetary (non-financial - policy) factors.

As a derivative of the financial policy, the financial system is subject to changes and, in any case, such a situation is legitimate when a change in the financial policy occurs. Given the above, it is necessary to consider the thesis concerning the stability of the financial system. ‘A stable
financial system constitutes a condition for effective monetary and fiscal policies, for the fulfilment of economic functions by enterprises and households. Only in the face of a stable financial system can the economic growth be achieved as the basis for the development of the society [Owsiak 2015, p. 248]. Stabilisation cannot be equated with stagnation. Predictability is of great essence. The stabilisation of the financial system should encompass all its components. They should also be characterized by internal stabilization. The process of stabilization of the financial system is most strongly related to the public finance system, in which public authorities have public money at their disposal both in the process of its accumulation and redistribution. This justifies changes that most often affect the individual elements that the system is composed of. This feature is characteristic of public finance, which is formed by the elements in a subjective, organisational, legal, institutional and instrumental system [Owsiak 1999, p. 89], which takes a specific form.

The public finance system will remain stable if there are no changes in rules, legal norms and financial institutions. The destabilisation of the public finance system may have an impact on the stabilisation of the financial system. The factors causing changes can be various: internal (domestic), external (international), objective and subjective, permanent and transitory. Another classification of the factors allows distinguishing: economic (including financial), political, legal, organisational, and social ones.

In this context, the question arises: is the stabilising of the financial system and the public finance system subject to the same rules? If so, the monetary policy and the fiscal policy should be treated similarly. In practice, both are pursued on different principles. Therefore, a distinction should be made between the stabilisation of the financial system and the stabilisation of the public finance system. Treated differently, the stability of the public finance system does not necessarily undermine the stability of the financial system. In this case, certain conditions should be met. The public finance system will always be treated as a subsystem of the financial system. The stability of the financial system results from the stability of its components. Is the stability of the subsystems of the financial system the same? If we assume some standards of stability, this identity should be found. In other words, each system should be full. But one hundred per cent stability in each system will be expressed differently. The purpose of the deliberations is not to calculate the quantitative contribution of the individual subsystems, but to draw attention to the qualitative differences. They arise from the specific characteristics of each subsystem. In the present deliberations, the specificity of the public finance system will be subject to analysis.

A system can be considered from the theoretical and the practical perspective. The theoretical perspective allows for the shaping and organising of a particular system, which affects the activities that lie on the practical side. In the literature [Pietrzyk, Wołanski, Wozniak 2003, p. 17], the authors assume that ‘the distinguishing feature of the financial system is that it is a mechanism through which services are provided that allow the circulation of purchasing power in the economy’. The basis for this process is money, which conducts many functions, including that of measuring the value of goods. This requires a finding ‘(...) whether money, to perform the functions of measurement, exchange, and representation of value, is itself and must be a value, or whether it is enough if it replaces that value as a numeral, as a pure sign and symbol, intrinsically devoid of its own substantive value.’ [Simmel 2012, p. 133]. The answer to this question is unambiguous. Money has value because it forms a relationship with other values. The above reasoning is vital in defining the financial system ‘(...) as a set of logically interrelated organizational forms, legal acts, financial institutions and other elements that enable entities to establish financial relations in both the real and the financial sector’. The division of the financial system can be made using different criteria. One of them is the way in which money is disposed of. It introduces a division into public and private spheres and the type of ownership associated with it. [Pietrzyk, Polański, Wozniak 2003, p. 19]. Another criterion, a subjective one, determines which institutions may dispose of money. In this case, the banking system, public finance system, corporate finance system or insurance financial system are distinguished [Owsiak 2015, pp. 248-276]. The problem related to the concepts of division of the financial system boils down not to which one is applicable in practice but whether these are subsystems making up a common whole or whether they are separate parts that have own identity. Without denying the links that connect the various elements that make up the financial system, one should pay attention to their separateness.

The grounds for creating a public finance system are public tasks [Wernik 2007, p. 13] performed by the state authority. The system of public finance has a complex
form. The question arises: what links connect individual elements of this system? It is vital here to state that ‘Analyzing the system of links between individual entities of the PFS [public finance system], it is necessary to notice that it is a network of links that significantly obscures a picture of resource allocation in the PFS. The system is not only extremely complicated but also not very transparent’ [Kosek-Wojnar 2021, p. 186]. Despite these limiting conditions, the source of the money that comes from taxpayers combines the system.

As already stated, seeking stability in the system is difficult, and changes should consider the links with the social environment.

Changes to the system as a totality are not an option, as they usually concern taxation. However, any change requires reference to the law in force. The regulations contained in the Constitution are the most essential. Three principles should be obligatory for the authorities. The first principle is the principle of legalism. It means ‘(...) that the collection and disbursement of funds for public purposes may be conducted only as the law prescribes’ [Zaborek 2012, p. 333]. The second principle is debt limitation. The third principle concerns the accumulation and spending of public budgetary funds and indicates the bilateralism of these processes, for which the council of ministers is responsible.

Apart from the Constitution, the other main piece of legislation is the Public Finance Act of 27 August 2009, which came into force on 1 January 2010. [Journal of Laws of 2013, item 885 later amended]. It defines who has powers to dispose of public funds and what powers they have. It is a kind of ‘the constitution of public finance."

In addition to rights, the rational management of public funds plays an essential role. Bad management can cause a ‘collapse' of public finances. It may impede economic development and social welfare [Zaborek 2012, p. 329]. Deficiencies in the functioning of the public finance system lead to changes that require justification.

The factors that accompany changes take the form of monetary and non-monetary phenomena. Both involve the need for public money operations. 'Public monetary resources exhibit the characteristic of natural mobility. Their natural liquidity is limited only to the extent that legal norms impose specific procedures for their disposal. Still, even with this reservation, goods in the monetary form constituting public money resources are far more malleable than any other goods the administration have at their disposal.’ [Gaudemet, Molinier 2000, p. 43]. The use of public monetary resources results from the necessity to perform tasks imposed on the public authority, which results in a constant movement of public funds. The discharge of public tasks is closely related to the state's performance of its functions [Strąk 2012, p. 38]. It is done with the help of entities with different organisational and legal forms. However, no mechanism obliges them to act efficiently [Strąk 2012, pp. 69, 81]. There are several models, which are a reference for public sector units, but ‘these models even accept the need to measure the achievements of individuals. In this respect, the differences between the models concern only the hierarchy of individual measures, not the necessity of their application’ [Strąk 2012, p. 89]. It leads to discretion in decision-making, if it does not interfere with the applicable law.

We need to distinguish two levels in the management of public funds. The first one involves first-level decision-makers, e.g., the state or a local government. The second level concerns subjects pursuing public tasks, such as public schools. They are final decision-makers. The differences boil down to the fact that management at the first level is highly political, which results from the fact that decisions concerning e.g., the state budget are made by the parliament with a diversified political configuration [Piotrowska-Marczak, Uryszek 2009, p. 31]. When decentralising power into state and local government, the extent of financial autonomy of local self-government is essential. It means ‘(...) that the problem of decentralisation and adequacy should always be seen from the perspective of the entire system of public finance and other conditions’ [Lubinska 2017, p. 89]. The changes designed or introduced by the state or local authorities should focus on the rational management of public funds. In this case, one should remember that ‘(...) rationality of public finance is not possible without a clear model concept of the state, its role and, consequently, the scope of public tasks.’ [Szołno-Koguc 2017, p. 133]. Efforts to introduce changes in the system of public finance aimed at its rationalisation must answer the question: will they be consistent with a precisely formulated vision of the state? In this process, the analysis of public expenditure plays an essential role, which is because ‘(...) the assessment of the structure of public expenditure cannot be overestimated since it provides the basis for defining the type of political doctrine built in a country and the corresponding social and economic policies’ [Lubińska
According to P.M. Gaudemet and J. Molinier [Gaudemet, Molinier 2000, p. 90-93], the use of public money is characterised by flexibility, comprehensiveness and efficiency. Flexible intervention is devoid of coercive elements and leaves entities freedom of action. It activates incentives that allow undertakings which are in line with the intentions of the public authority. In this case, it must be considered that there is a two-way action, which involves financial operations affecting the economy and, conversely, actions occurring in the economy affect financial operations. Economic objectives that are pursued using public funds should be undertaken with great distance and caution. As part of financial intervention, the state authorities may use various instruments, taxes and interest rates (the public authorities in Poland used such instruments in 2022). What occurs here is a situation in which ‘The links between financial operations and policy are extensive and complex. Just as with economic activities, interactions between politics and finance appear here.’ [Gaudemet, Molinier 2000, p. 104]. This relationship is of great significance, as changes in the system of public finance cannot be interpreted in economic terms without considering the political preferences of the public authorities. ‘All political bodies equipped with financial competences will gain political power from it. It is greater than it would result from the legal rules defining their status’ [Gaudemet, Molinier 2000, p. 106]. A statement must be added here that ‘The predominance of a minister of economy and finance within the cabinet is sometimes so significant that it can lead to conflicts with the prime minister.’ [Gaudemet, Molinier 2000, p. 109].

This finds expression in fiscal policy. It is characterised by specific rules (the so-called fiscal rules) to safeguard public finances from a crisis. ‘Fiscal rules become tools that are part of the characteristics of a transparent fiscal policy. It is vital to increase the predictability of actions conducted within public finances, limiting a possibility of irresponsible behaviour of politicians.’ [Ciak 2014, p. 149]. The rules mentioned are quantitative and qualitative in nature. The quantitative rules set limits, e.g., on expenditure, while qualitative rules are concerned with such financial categories as revenue and expenditure and their relationship. ‘Rules become a kind of obstacle to a possible inappropriate fiscal expansion of public authorities, especially spending, which could lead to a too deep imbalance between state obligations and a source of their coverage’ [Ciak 2014, p. 149]. Despite these safeguards, public authorities, having public funds at their disposal, may dispose of them, disregarding the principles of rational, efficient management, including fiscal rules. It is because ‘The balance of political forces of a given country in a given time is an essential element of the orientation of that country’s finances. In fact, it has always been the case that the social group holding political power has used the financial powers at its disposal in its own interest’ [Gaudemet, Molinier 2000, p. 149].

The problem of counteracting such practices boils down to setting and enforcing sanctions for violating financial discipline related to non-compliance with the rules governing the use of financial instruments. These matters intensify when a country joins international economic ties, such as the EU. It is worth noting here that ‘(...) this whole adjustment process takes place not only at the economic level but also the political and cultural (mental) levels. The process concerns not only elites that are subject to deserved criticism but also entire societies.’ [Szomburg 2005, p. 7]. Under these conditions it is necessary to consider what the signal should be for changes in the system of public finance. In this case, it should be assumed that ‘the basis for outlining proposals for changes in the PFS should be its assessment. In this respect, the selection of criteria is relevant.’ [Kosek-Wojnar 2021, p. 192] A catalogue of qualities that play a role in evaluating changes and establishing an institution (council) that would conduct such evaluations is crucial. The system of evaluations relates to information on the condition of public finance communicated to the public, which is referred to as fiscal illusions. The problem in this regard boils down to the fact that ‘The creation of fiscal illusions in the gathering and spending of public funds is a dangerous phenomenon for state finance.’ [Kosek-Wojnar 2021, p. 201]. There is no doubt that a message not reflecting the truth causes a lack of trust in the authorities and, consequently, may lead to a change of the government, which results in authorities’ making decisions on a development policy and triggering reactions from business entities [Sadowski
The issue related to the need or necessity of making changes in the system of public finance requires an answer to the question: what factors determine these actions? Here, it is necessary to distinguish between the factors that have a financial, monetary expression and those that do not have a pecuniary form called non-financial. To do this, it is necessary to decide what factors determine the scope of the system of public finance, indicating only the most significant of them.

These include:

- the proportion between the private and public sectors, and the related form of ownership, of the means of production,
- the economic model,
- the scope of market economy,
- the functions of the public sector,
- the level of economic development of a particular country,
- the formal conditions for restricting the public sector,
- the results of cost-benefit analysis.

Each of the mentioned factors requires indicating what its content is in terms of its role in shaping public finances.

The division of the economy into public and private sectors is significant, and therefore the proportions between these sectors are crucial. They decide on the dominant type of ownership and determine how wide the scope of public finance is to be. That is influenced by the specific features of both sectors, which are on both the revenue collecting and the expenditure incurring sides. The state is the custodian of public funds, and it possesses the apparatus of coercion to collect income chiefly in the form of taxes. There is no obligation as regards the structure of expenditure. The resources collected are intended to satisfy the interests of the public. In contrast, private resources are characterised by partial coercion on the expenditure side, as taxes imposed on this sector are obligatory. On the other hand, there is no coercion in this case to collect the income. The mutual dependence of these two sectors assumes the following form: the broader is the scope of the private sector, the narrower is the scope of the public sector and, of course, the other way round. This division can be corrected by the institution of public-private partnership, which nowadays is slowly being integrated into financial processes. Under Polish law [Journal of Laws No. 180, item 1112, later amended], a public and private partnership is a commitment to implement a project in return for remuneration and to incur expenditure in whole or in part by a private partner. When deciding on the proportions between the public and private sectors, one should remember that 'If in the case of the private economy (private sector) the market mechanism affects the way it functions, the effects it achieves, etc., in the case of the public sector, the political mechanism and the closely related electoral system are of key relevance.' [Owsiak 1999, p. 72] That means that the proportions of both sectors may change. However, one should not forget that some actions are permanent, e.g., the process of privatisation takes place only one way.

The scope of public finance and the public sector is influenced by another factor which is a model of economy. That refers to market models. In literature [Gołębiowski, Szczepankowski 2008, p. 112], a division into liberal and coordination-based economies is proposed. Countries with liberal economy model include the USA, the UK, Australia, Canada, New Zealand and Ireland. In contrast, countries based on the coordination economy model are Germany, Japan, Sweden, the Netherlands, Belgium, Norway, Denmark, Finland and Austria. The first group is treated as countries with a strict market economy and for these countries the scope of public finance is limited to the collection of funds for the performance of necessary functions. In contrast, the countries constituting the second group, e.g.: Sweden, Norway, or Denmark are characterised by the development of social functions and a considerable extent of public finance, and their economy is described as social-democratic. Moreover, some countries, such as Germany, define their economic model as a social market economy where the scope of public finances is smaller than in the economy described as social-democratic but broader than in liberal economies. The measure for determining the extent of public finances is the size of public resources in the long term. So, one can say that the scope of public finance does not depend on a country’s level of development but on an economic model and a range of the market. If the market is dominant and its transactions take priority, the scope of public finance is narrower. On the other hand, if some transactions are non-equivalent, then the scope of public finance widens. That means that ‘the public economy produces certain services and transfers them, also to some extent sells them.’ [Kucharski 1986, p. 18]. The market cannot be an all-encompassing mechanism because some products
and services must be redistributed in a non-equivalent manner. It makes it necessary to separate the public sphere. The relationship in this area is the following: the better the substitution of the market by the public sphere, the greater the scope of public finance.

A factor that influences the scope of public finance is its functions. The most prominent of these are the intervention and social functions. In literature [Markowski 1992, pp. 20-21], in line with J. M. Keynes’s approach, it is assumed that the market mechanism is imperfect and needs support, and free competition does not ensure a stable economy. The continuators of these views - neo-Keynesians, point out that the intervention function of the state results from the need to mitigate the effects of economic crises. The social function is closely related to the intervention function. ‘Social infrastructure and its functioning play a specific role here, limiting how many diverse needs are met.” [Frąckiewicz 1983, p. 7]. These needs are generated in several areas, such as: employment, social security, health care, education, etc. Satisfying these needs requires outlays from public funds referred to as ‘investment in man’, which require the expenditure in the following areas: education, health care, culture, sport and leisure. And the more extensive is the state's intervention function and, the broader is the scope of the social function, the larger is the area of public finance.

The next factor influencing the scope of public finance is a cost-benefit analysis. The specificity of this calculation lies in the fact that 'If precise measures can be used to determine costs, the measurement of benefits achieved because of public decisions is qualitative in nature.' [Owsiak 1999, p. 79]. The basis of an account kept in the economy is profit, while in the case of the public finance account, benefits mean securing the needs of the public.

Hence, the need to compulsorily collect revenue and allocate it to public purposes in the form of free benefits and services results. This is because part of the population would not be willing to spend their income on, for example, education or road building, justifying it by the fact that they do not need to use it. Such individual attitudes must be balanced by the action of public authorities, whose duty it is to safeguard the interests of society as a whole. Hence, the decisions resulting from this account affect scope of public finances.

Whatever account, one must take into consideration that ‘(...) public money resources exhibit a characteristic of natural mobility. Their natural liquidity is limited to the extent that legal norms impose specific procedures for their disposal’ [Gaudemet, Molinier 2000, p. 43]. The quoted statement clearly indicates that the applicable law outlines the framework of public finance and acts either extending or limiting the scope of public finance. Here, the strong links between public finance and law come into play. Since the state is the creator of law, public finance must also be considered in the political dimension. The presented factors affecting the scope of the public finance system are related to decisions on introducing changes in it. The factors determining changes have been divided into those expressed in money and those which are not monetary. The former factors include the need to raise an adequate amount of public revenue and changes in the structure of public expenditure. These two factors are overlaid by a desire to maintain a balanced budget or reduce a deficit and, consequently, public debt, for example, by an increase in taxes of certain types or adjustments to changes in the structure of public expenditure. On the other hand, non-monetary factors include, e.g., the aim to reduce social inequalities. Moreover, the political structure of the public power determines the changes in the system of public finances. “This is because the mechanism of decision-making as to the allocation of public funds is vested representatives of the society, i.e., MPs, senators or town councillors at the local level. An additional complication is that the various parties, both those in power and those in opposition, compete and promote different choices as to the use of public funds.” [Piotrowska-Marczak, Uryszek 2009, p. 32]. Another factor that influences the process of the decision-making on changes is a model of the state and economy.

In the light of the arguments made, we may conclude that the public finance system is characterised by stability, understood in a specified way, which promotes changes influenced by monetary and non-monetary factors.

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