

PROSPECTS FOR THE DEVELOPMENT OF FUND ECONOMY IN POLAND

Introduction

In the context of actions undertaken especially in recent years in order to improve public finance the dilemma returns, which of the forms of accumulation and expenditure public money – budgetary or fund-based – offers greater possibilities for rationalization (efficiency, effectiveness, and transparency) of public finance: whether and to what extent appropriated funds should complement the state budget properly or, conversely, should be the foundation of managing public money. The current fund economy in Poland covers nearly one quarter of public revenues (i.e. over 10% of GDP) and over 30% of public expenditures (i.e. 15-16% of GDP).¹ Just to compare to the state budget accumulates circa 50% of all public revenues while expending less than 30% of total public expenditure. When an exception to the rule (of classical principles of budgetary universality and material unity) has practically become the fundamental institution of spending public money, it comes as no surprise that both theorists and practitioners postulate that the practice of fund-creation should be, if not entirely eliminated, at least radically curtailed. On the other hand, one can observe that there is clear social and political pressure towards creating new public appropriated funds.

The purpose of the present paper is to outline, in the context of the most important merits of the public appropriated fund and taking its imperfections and defects into account, the conditions for the rational use of this institution for the accumulation and allocation of public money.

1 S. Owsiak, *Finanse publiczne. Teoria i praktyka*, Warszawa 2005, Tables 12.1-12.4.

The Essence of Public Appropriated Fund

What is the public appropriated fund? In the doctrine of public finance three fundamental characteristics of public appropriated funds are most frequently indicated:²

- a) they are separated from general budget resources in different ways and constitute a whole,
- b) their income is received from strictly defined sources and basically connected with their purposes,
- c) funds are expended on specific tasks/expenditures.

These attributes are also emphasized by the legal definition of public appropriated funds (in the light of the Public Finance Act), which defines the appropriated fund as a fund established by statute, whose revenues come from public money, its expenditures being allocated for the fulfillment of separate specific tasks.³ Two statements could be concluded from the legal definition of the appropriated fund. Firstly, a statute exclusively constitutes the legal source of an appropriated fund, therefore it cannot therefore be established by lower-level regulations, including executive orders or local laws. The scope of the concept of appropriated fund, adopted in the Public Finance Act, also excludes funds created by international agreements. Secondly, the Public Finance Act itself does not constitute sufficient legal grounds for establishing an appropriated fund. Individual funds operate on the basis of separate statutes. The Public Finance Act only specifies general conditions, the fulfillment of which results, under the laws, in recognition of a given form of financing public tasks as an appropriated fund.

The provisions of the Public Finance Act of 2005 contain a clear regulation which excludes the following appropriated funds from the catalogue:

- 1) statutory bank accounts, which have not been defined by the constituting statute as an appropriated fund; and
- 2) funds whose only source of revenue, excluding bank account interest and donations, is a budget grant.⁴

This restriction was undoubtedly introduced to order the subjective scope of the legal institution under consideration formally but at the same time it hindered comprehensive interpretation of the fund-creation phenomenon. As far as the procedural law aspect is concerned, a given institution which accumulates and

2 See: J. Harasimowicz, *System funduszków w Polsce* [in:] *Wybrane źródła i literatura do obowiązującego prawa finansowego*, Toruń 1949; Z. Pirożyński, H. Sochacka-Krysiak, *Budżet państwa*, Warszawa 1969, p. 31.

3 Art. 29, (1) of the Act of 30 June 2005 (Official Journal No. 249, item. 2104).

4 Act of 30 June 2005., Art.29 (3).

spends public money may be considered as an appropriated fund if it meets the prerequisites specified in the Public Finance Act and is called so by the constituting statute. The economic aspect of the analysis, however, emphasizes the purpose-specific connection of the accumulated financial resources with expenditures, which is implemented using different forms of financial, organizational and/or legal separation from the general budget resources (for example, the National Health Fund is, in the light of regulations, a state organizational entity with legal personality although in the economic sense it has the features characteristic of fund economy, National Road Fund [KFD] and many other funds deposited in the BGK [National Economy Bank] and Bank Guarantee Fund [Bankowy Fundusz Gwarancyjny]).

Motives for the Creation of Appropriated Funds

The motives for creating appropriated funds can vary considerably. This is evidenced by a great number of appropriated funds that were established in various periods for the implementation of various objectives and which were frequently transformed due to the circumstances that justified the setting up this special form of public money management. Public appropriated funds are created in different countries, as a part of different legal systems (their extensive development being observable in the countries with Continental law tradition, whereas they are a marginal occurrence in the countries with the legal systems of Anglo-Saxon origin). Furthermore, one should note that the actual reasons for the setting up and functioning of a fund are not always known.⁵ An example in the interwar period can be the fund for combating smuggling, which the then Vice Minister for Treasury himself described as ‘an unspecified fund’.⁶ Especially in the People’s Republic of Poland the establishment of appropriated funds was not accompanied by official government documents that would justify the motives for the its setting up. Nor did the practice of the functioning of a particular fund always allow to comprehend the motives for and purposes of its existence fully due to the lack of available and properly prepared reports on its operations.

In general, the motives for establishing appropriated funds can be divided into three groups of justifications which usually occur together in practice:

economic reasons,

social and political reasons,

5 The views of W. Łączkowski, J. Kaleta, N. Gajl and E. Denek referred to by J. Stankiewicz, *Sanacja finansów publicznych a problem funduszy celowych państwa*, [in:] *Sanacja finansów publicznych w Polsce. Aspekty prawne i ekonomiczne*, Uniwersytet Szczeciński, Szczecin 2005, p.364.

6 I. Weinfeld, *Skarbowość polska*, Warszawa 1939, p. 149 [after:] J. Małecki, *Założenia funduszy celowych rad narodowych*, “Ruch Prawniczy, Ekonomiczny i Socjologiczny” No. 1/1974.

technical and organizational reasons.⁷

The most often indicated **economic reason** is the so-called economic calculation on the scale of the state. This comprises both the correct reflection of management processes in a specified section of public tasks by comparing costs and effects and, on the other hand, the exertion of a motivating impact on reducing operating costs or maximizing revenue, on enhancement of the quality of operation and its efficiency. The aforementioned incentive condition for the creation of appropriated funds is justified by the fact that the dimensions of activities financed by a fund depend in principle on the amount of money the fund has. This condition plays a role if the managing body can affect the increase in revenues or, more often, minimization of costs, thereby indirectly broadening the possibilities of operation with given revenues. The factors that neutralize the aforementioned motives can be all kinds of administrative restrictions when the scale of operation is determined not so much by the money at the fund's disposal but by whether a particular task is within all manner of limits.

Another economic reason for creating appropriated funds is a tendency to increase the burden imposed on economic entities or population with the costs of public services, for example by introducing a new tax, a purpose-specific payment or -contribution that goes towards a corresponding fund.

It is far more difficult to establish the **socio-political motives** for creating appropriated funds even if they are undeniably prevalent in the current practice.⁸ These are highly varied and depend on the current assumptions of the parliamentary and government activities, which after all do not have a permanent character. Appropriated funds are usually set up in order to solve some important tasks, e.g. liquidation of surplus on the labor market, health protection, road construction, etc. The motivational aspect is frequently emphasized here: these institutions combine the funds of a number of entities with the purpose of implementing selected objectives of extraordinary significance. On the other hand, one should realize that very often the underlying intention may be to emphasize certain expenditures only for tactical and political reasons (the use of the institution of fund in a political game), and to satisfy immediate demands voiced by certain circles, professions or territorial problems.

Most often, however, literature names technical-organizational reasons as the motives for the creation of appropriated funds. Appropriated funds are set up first of

7 J. Małecki, Założenia funduszy celowych rad narodowych, "Ruch Prawniczy, Ekonomiczny i Socjologiczny" No. 1/1974.

8 This view is expressed by C. Kosikowski (Finanse publiczne. Komentarz, Warszawa 2006, p. 117), referring for support to J. Brożek, Rozwój gospodarki funduszowej w Polsce Ludowej, "Studia Finansowe" No. 23/1977; S. Owsiak, Parabudżety w systemie planowania finansowego, "Finanse" No. 5/1978; J. Małecki, Fundusze pozabudżetowe rad narodowych, "Problemy Rad Narodowych" No. 40/1978.

all because of the imperfections of budgetary economy, its excessive subordination to the rigors of the annuality principle and lack of sufficient flexibility, which hinders rational planning of public revenues and expenditures, and first of all the implementation of them under the conditions of the continually changing reality. Appropriated funds are regarded as some kind of panacea for the aforementioned inconveniences.

Appropriated funds may sometimes be used in tax technology as a tool for increasing tax burdens.⁹ For example, when the introduction of a new tax is likely to provoke resistance, it may turn out easier to introduce a new special quasi-tax encumbrance with the purpose of allocating revenues from it for some specific, socially important objectives.¹⁰ After some time the fund may be closed, the encumbrance ceases to be purpose-specific but the receipts – now pure taxes – remain.

Appropriated funds are also regarded as a very good tool for managing specific important areas or segments of public activity (social security, environmental protection).¹¹

To sum it up, there are the following arguments for departing from rigid budgetary principles and for setting up appropriated funds:¹²

- **first**, the importance of public tasks being implemented, which need not, because of their privileged position, compete for funds with other tasks included in the budget (whether state or local government),
- **second**, departure from the principle of annuality guarantees financing continuity,
- **third**, expenditures of an appropriated fund depend on the money at its disposal that comprise current revenues (including budget grants) and the money remaining from previous periods; realization of greater revenues/net income is the grounds for incurring greater expenditures than planned whereas the amount of budget expenditure and outgoings is a non-extendible limit;
- **fourth**, the functioning of appropriated funds is not directly subject to budgetary control because their revenues and expenditures are not directly a part of the budget although the financial plans of some funds are included into the state budget act.

9 J. Jaśkiewiczowa, Z. Jaśkiewicz, *Zarys nauki finansów publicznych*, Warszawa 1968, p. 51.

10 J. Małecki, *Założenia funduszy celowych rad narodowych*, "Ruch Prawniczy, Ekonomiczny i Socjologiczny" No. 1/1974.

11 I. Weinfeld, *op. cit.*, p. 149.

12 See B. Woźniak, *Fundusze celowe*, [in:] *System finansowy w Polsce*, (eds.) B. Pietrzak, Z. Polański, B. Woźniak, Warszawa 2003, p. 581.

It should be noted that the foregoing reasons and arguments can certainly be strengthened or weakened under specific economic, social, and political conditions. What is conducive to the creation of funds is the difficult economic situation of the country, which usually results in, if not a deep crisis, then at least destabilization of the state finance. A decline in public revenues on the one hand, (especially derived from taxes), and on the other the stronger and stronger social (and political) pressure for increasing budget expenditures, is often an incentive to secure the funding of specific tasks precisely by creating a separate fund. The different level of economic development territorially-wise also contributes to setting up appropriated funds. Similarly, of significant importance are political conditions: the parliamentary opposition usually opposes the “relaxation” of the rules of budgetary economy while the ruling parties are more inclined towards developing the fund economy, of which numerous examples can be found in Polish practice in recent years. Moreover, the more rigid the formal rules in the systemic solutions concerning the budget and budgetary economy are, the greater is the tendency to create para-budgetary institutions.

Conditions for the Efficient Functioning of Public Appropriated Funds

While considering the principles of rational management of public moneys, one can show at least several criteria determining the possibility of using appropriated funds in the system of public finance:

- 1) extraordinary character of tasks financed from the fund,
- 2) comparative financial autonomy,
- 3) obvious causal relationship between revenues and expenditures,
- 4) allocation of given revenues for only one, strictly specified purpose,
- 5) uniform character of solutions used in relations to the budget (either only budgetary or only extra-budgetary),
- 6) appropriate manner of management, including control and planning, which ensures the tightness and consolidation of the whole system of public finance.

Undeniably, the most important requirement follows from the particulars of objectives and tasks, for the implementation of which a given para-budgetary institution has been or will be established. The tasks implemented by the state as

well as by other public law entities (including local government) can be divided into three basic groups:¹³

- 1) strictly public tasks,
- 2) social and welfare tasks,
- 3) economic tasks.

Strictly public tasks derive from classic functions of the state, which ensures internal and external security of citizens, the need to represent a given state in diplomatic relations, and taking into consideration the necessity of maintaining the bodies of authority and public administration: the Sejm (Parliament), government and its subordinate ministries, central and local administration offices, justice etc. Public tasks constitute, as it was, the essence of the state; without them the institution of the state simply would not exist. Therefore, if the state budget is the state's financial plan, it should, undoubtedly, comprise all the revenues and expenditures connected with the implementation of exclusively public tasks in the first place; it should show how much it costs to maintain the state as an institution. It is difficult to discriminate here between the importance of individual areas covered by the category of public tasks. This differentiation may, admittedly, occur in the short run (especially when the country's security is at issue) but will not take place in the long-term perspective (assuming of course a comparative stability and political autonomy of a particular state). The implementation of individual public tasks requires an equal and balanced treatment. In the long term, therefore, there will be basically no sufficient reasons that would justify the creation of special-purpose, especially extra-budgetary, funds.

As far as economic and social and welfare tasks are concerned, theoretically or rather hypothetically, the state does not have to implement them directly. However, taking into consideration historical experience as well as the total achievements of social and economic thought, it is difficult to imagine a contemporary state that would be indifferent to the problems of healthcare, welfare, education or science. Contrary to the views of orthodox supporters of free market, the state should take advantage of its possibilities to intervene in social and economic affairs by implementing the allocative and stabilizing function of public finance. However, the scale of implementation of both social and economic tasks may be and is different depending on the adopted model of state in a given case, and on the more or less

¹³ See S. Owsiak, *Finanse publiczne. Teoria i praktyka*, Warszawa 2005, p. 690 and B. Woźniak, *Zasady funkcjonowania i zakres publicznego systemu finansowego*, [in:] B.Pietrzak, Z.Polański, B.Woźniak, *System finansowy w Polsce*, Warszawa 2003, p. 426 et seq. See J. E. Stiglitz, *Ekonomia sektora publicznego* [Polish translation of 'Economics and the Public Sector'], Warszawa 2004.

consistent reflection of the model in the current policies and actions undertaken by individual governments.¹⁴

In the area of social welfare tasks the state should ensure a certain standard of guaranteed benefits and services. Nevertheless, the question arises 'what standard is meant, what should be the point of reference: needs that are essentially unlimited, solutions adopted by other countries at the similar level and the conditions of development, or financial capacity – what standard a given state can afford taking into account the degree of affluence or rather impoverishment of its society (the main source of financing all the state's tasks are fiscal burdens: it is on the affluence of taxpayers – present and future – that depends what money the state has at its disposal). Even a greater problem relates to economic tasks. Until the present day neither theory nor practice has offered a clear-cut solution to the fundamental dilemma of financial policy: to what extent, under what circumstances and which instruments exhibit greater efficacy – those of fiscal or monetary policy.

Without creating a clear conception of the state, especially from the standpoint of its social and economic role, it is difficult to answer the foregoing emerging questions. Without doing this, one cannot determine whether and to what extent the state should confine itself to the budgetary form of financing economic and social welfare tasks. The form of funds certainly makes it easier and quicker for society to implement the 'golden rule' of public finance: a direct relation between benefits that an individual citizen and the whole society obtain, and current fiscal burdens (as well as future ones if state expenditures are financed by the increased public debt).¹⁵ It is not enough to make superficial declarations about a particular care in expending public funds. The grounds that justify the possible admissibility of diverse forms of managing public money must stem from the adopted and consistently implemented social and economic model of the country. The clear tasks and objectives, which are emphasized in it, can due to their strategic priority constitute a justification for financing them from appropriated funds.

An appropriated fund should be characterized by comparative financial autonomy, which denotes being based on the fund's own sufficient income-earning sources that come from public revenues i.e. obligatory contributions, charges or payments, directly connected with the tasks for the implementation of which the fund has been established. Budget grants may complement the fund's own financial resources but only in extraordinary circumstances and temporarily, i.e. until the fund regains its financial stability. Should the need arise, budget transfers will replace the necessity to acquire money from returnable sources in the fund economy. However,

14 On the modes of social policy see S. Golinowska, *Polityka społeczna: koncepcje, instytucje, koszty*, Warszawa 2000, also R.M. Titmuss, *Social Policy: An Introduction*, London 1974 and G. Esping-Andersen, *Three Worlds of Welfare Capitalism*, Cambridge 1999.

15 S. Owsiak, op. cit., p.717.

the higher the share of the budget in financing the tasks of an appropriated fund, the more dubious is the justification for implementing them off-budget.

Comparative financial autonomy does need and does not mean the full possibility of using credits and loans: one should think that it is not a recommended solution with the fund-based forms because it carries a well-grounded risk of difficulty in controlling and systematically monitoring the debt of the public finance sector. The issue is rather the use of forms of returnable funding within the whole sector: the management of the current liquidity of the sector's institutions should be facilitated by a complete balance consolidation, assuming that the increase in long-term obligations is to be conditioned by the extraordinary character of development tasks being implemented.

An important role from the standpoint of efficient functioning of appropriated funds plays the fact that there is a direct cause and effect relationship between the income (or more broadly, gross revenues) accumulated within the fund and the fund's expenditures. This has a significant motivational virtue, which produces an actual advantage of appropriated funds over the budget and its general and universal character. Usually, when paying monthly advance income tax payments or clearing VAT accounts, average taxpayers see no connection between the tax burden they bear and the improvement, for example, in the condition of the road they drive to work every day, a sense of security etc. This relation should, however, be noticeable in the case of purpose-specific tax burdens incurred by fund institutions. For example, increased health insurance contributions should result in the improvement in financing health protection. It should also be noted that this improvement in financing does not need to mean full satisfaction of those insured with the performance of public services in this area: this problem does not depend on finance management only but also on the adopted standards of quality and a redistribution model (e.g. on the content of the so-called basket of medical services financed from public money).

The money of appropriated funds, since they come from public levies, which are paid, instead into the state's general budget, into the account of a separate fund, should not be expended on other purposes than those specified in the legal act concerning the establishment of an appropriated fund. Considerations of efficiency and efficacy compel a given appropriated fund to implement one specific objective. A great number of objectives obscure the picture of a fund's activities. In practice, it is difficult to determine their hierarchy of importance, still more difficult – to show accurate measures that enable objective assessment to what extent the functioning fund contributes to attaining these goals (or at least to bringing closer their implementation in a measurable way). The appropriated fund then loses its characteristic properties and becomes a budgetary institution: apart from the general

budget, special budgets emerge (it should be, however, kept in mind that this type of solution functions successfully in the Japanese system, for example).

In general, the fund economy should be a distinct exception to budget rules. Its scope, if we agree on its admissible co-existence with the budget, should be definitely limited. It is difficult to suggest any specific, numerical values in this respect but the proportions both on the side of income and expenditure operations of the public finance sector should certainly show the undeniable dominance of the state budget and possibly of local government budgets. At this point it is important to adopt uniform solutions for possible fund institutions within a given system of public finance. Although theory and current practice offer a broad spectrum in this area, the solution should rather be confined to one type of connections with the state budget in order to achieve a greater transparency of the system. Therefore, one should consider the alternative existence of either only intra-budgetary appropriated funds treated as special accounts (for instance in the form of separate programs as part of the task budget, which was employed e.g. in the French system) or only extra-budgetary ones, assuming that all budgetary institutions fulfill the principle of gross budgeting, having no purpose-specific connections with expenditures.

A rational appropriated fund is a fund created according to a suitable legal-organizational formula that enables rational management of its money. This rationality is not ensured by the functioning of appropriated funds within structures that have legal personality as it is difficult to find sufficient arguments which justify granting a separate legal status to any appropriated fund; on the contrary, this increases the cost of handling, brings about the risk of the fund becoming alienated, running out of the control of public finance that makes it difficult if not entirely impossible to conduct a single financial policy on the state's scale together with any concrete attribution of responsibility for its effects.

In order to manage an appropriated fund efficiently, diverse, detailed organizational solutions can be adopted: a separate section for a specific appropriated fund in a particular ministry as a budgetary entity or a specially established separate office (bureau) as a budgetary entity subordinated to this ministry, with the statutory task of managing or rather administering the process of accumulating and spending the money of the appropriated fund. In either case the organizational question is of secondary character: what is essential is that we are dealing with the financial allocation of a specified amount of money from the state budget to implement a particular task or objective. The character of this task or objective, and consequently, the necessary scale of financial operations, will determine the model of their organization and management.

Efficient management requires a uniform system of financial planning and a corresponding appropriate reporting system so that a comprehensive assessment

of plans and their actual accomplishment will be possible. Reports on the activities of appropriated funds should make it possible to assess a given institution time-wise and to compare it with other elements of the system of public finance, and in this context, assess the efficiency and efficacy of the task implementation. Absolutely, all fund-based institutions should find an appropriate position in the consolidated balance of the public finance sector while their character should be exactly defined: budgetary or extra-budgetary funds. Another condition is also the adoption and consistent application of the accounting record system identical for all institutions, which results in the required coherence in consolidating public finance.

Streszczenie

Obecna sytuacja w gospodarce funduszowej w Polsce wymaga głęboko idących zmian, szczególnie o systemowym charakterze. Utrzymywanie i rozwój lub, na odwrót, ograniczenia lub nawet eliminacja właściwych funduszy i podobnych form organizacyjnych, które funkcjonują na poza budżetem zależy od konsekwentnie stosowanego modelu finansów publicznych w danym państwie. Władze publiczne powinny jednoznacznie opowiedzieć się za preferowaną filozofią zarządzania środkami publicznymi. **Obecna doktryna teoretyczna nie daje jednoznacznej odpowiedzi. Co prawda odpowiednie fundusze dzielą posiadane środki i naruszają tradycyjnie rozumiane budżetowe zasady jedności i powszechności, ale uwzględniając obecną skalę i wagę finansów publicznych, mogą być one alternatywną dla niewystarczająco elastycznej gospodarki budżetowej.** Należy zdać sobie sprawę, że bez świadomych decyzji w tym kierunku, właściwe fundusze mogą być – co zostało pokazane w tym referacie – i często są „ucieczką” od pełnej przejrzystości, która determinuje potrzebę kontroli akumulacji i wydatkowania środków publicznych. Bardziej niż przyczynianie się do poprawy racjonalności, fundusze będą w praktyce źródłem marnotrawstwa, w ostateczności powodując nieefektywność i nieskuteczność całego systemu.