

# Finanzwissenschaftliche Diskussionsbeiträge

Wirtschafts- und Sozialwissenschaftliche Fakultät, Universität Potsdam

## Special Series

### **Scope and Forms of State Support to Enterprises in Poland in Period of Transition**

by

**Piotr Kurowski**



Athens



St. Andrews



Berlin



Potsdam



Szczecin



Warsaw



Sofia

Industrial and Social Policies in Countries in Transition

No. S-8

Piotr Kurowski

Institute of Labour and Social Studies  
ul. Smulikowskiego 4A  
00-389 Warsaw  
POLAND  
E-mail: [instprac@it.com.pl](mailto:instprac@it.com.pl)

Scope and Forms of State Support to Enterprises  
in Poland in Period of Transition  
Oktober 1998

Finanzwissenschaftliche Diskussionsbeiträge  
Special Series: Industrial and Social Policies in Countries in Transition

University of Potsdam, Faculty of Economics and Social Sciences

in cooperation with:

Athens University of Economics and Business, Department of Economics

University of St. Andrews, Department of Economics

Humboldt-University of Berlin, Department of Agricultural Economics and Social Sciences

Agricultural Academy of Szczecin, Faculty of Economics

Institute of Labour and Social Studies, Warsaw

Bulgarian Academy of Sciences, Institute of Economics

Discussion paper series editor: Prof. Dr. Hans-Georg Petersen, University of Potsdam, Faculty of Economics and Social Sciences, P.O. Box 900 327, D-14439 Potsdam. Phone: +49-331-977-3394; Fax: +49-331-977-3392; Email: [lsfiwi@rz.uni-potsdam.de](mailto:lsfiwi@rz.uni-potsdam.de)

**ISSN 0948 – 7549**

# **Scope and Forms of State Support to Enterprises in Poland in Period of Transition\***

*Piotr Kurowski*

Institute of Labour and Social Studies, ul. Smulikowskiego 4A, 00-389 Warsaw, Poland  
Tel.: +48 22 828 29 40, Fax: +48 22 828 44 49, E-mail: instprac@it.com.pl

*Abstract:* In centrally planned economies state subsidies were the main instrument of supporting the economic sector. Most of them had also social functions (e.g. through subsidising the consumption of households). In the period of transition, with the withdrawal of the state from economic decisions of the enterprises, new social problems appeared. The paper analyses the process of granting state support to economic units - its scope and forms - in the 90-ties.

## **Introduction**

The purpose of this paper is to present the development of industrial policy instruments implemented in Poland during the period of transformation. An attempt is made to assess the scope and forms of the state support granted to enterprises by public authorities.

In financial terms the state support to economic entities can be expressed as a certain stream of money, related to such measures of the Polish economy as GDP or state budget expenditures. Two industrial policy indicators will be examined in the paper: state subsidies and state aid. In the first section I will examine similarities and differences of these concepts. In the second part I will consider forms of state support that existed in the 80-ies, mainly because of two reasons. Firstly, since it is the last decade before the beginning of transformation, it seems interesting to start with the comparison of excessive subsidies typical for

---

\* I would like to express my thanks to Prof. Stanisława Golinowska (Institute of Labour and Social Studies, Warsaw), for the inspiration to write this paper. I am also thankful to Dr. Wiesław Karsz (Ministry of Economy, Warsaw) for his support with appropriate data. Special thanks to Dr. Hans-Peter Weikard and Steffen Zillmer (Faculty of Economics and Social Sciences, University of Potsdam) for their essential help and comments.

centrally planned economies (Földi et al. 1992, vol. II). Second, since the steps aiming at reducing the process of subsidising enterprises took place in this pre-transition period, further reforms had their starting point in the 90-ies.

The third section deals with the scope, forms and structure of state subsidies to enterprises during the period of transformation. Section 4 presents the outcomes of researches on state aid in the period of 1993-1996. The paper ends with some concluding remarks.

## **1. Explanation of Terms: State Subsidies and State Aid**

The concept of state aid to economic entities has been introduced in Poland only recently. Before the economic transformation the concept did not exist - this is due to financial laws, budget reports and the theory of public finance. Instead of this term in theory and budget reporting the term of subsidies for enterprises was used. However, these two concepts are not unambiguous; it is worth then to clear out the differences.

The term "state aid"<sup>1</sup> is usually interpreted on the basis of the definition given by Western European countries. Generally speaking, state aid includes different forms of financial support of the state for various undertakings, selected in accordance with the priorities of economic policy (Fornalczyk 1996). It can involve some kind of public expenditure (money or in-kind transfers from the state budget or other public funds<sup>2</sup>), as well as disparagement of public payments that reduce the budgetary revenues (e.g. tax exemptions, waiver or deferment of payments, approval of payments in instalments). Selective character of the state aid can actually or potentially distort the conditions of competition on a given market. The market position of economic entities, to which the aid was granted, is changed - public intervention caused privileged conditions of operation in comparison to those firms that did not benefit from state aid. Out of basic forms of state aid we can distinguish subsidies, loan privileges, credit guarantees, tax allowances, capital investments, reduction of social contributions, public procurement, etc.

---

<sup>1</sup> Some researchers use the term "state support". Cf. Zienkowski (1996).

<sup>2</sup> In this paper the term state aid refers only to central government, that realises its socio-economic doctrine through state budget and public funds administrated centrally (e. g. Social Insurance Fund). Local authorities (communes - existing since 1990 - or counties and voivodships that will come into being in 1999) are not included.

"Subsidies" are usually defined as a specific public expenditure in form of transfers earmarked for economic entities<sup>3</sup> granted by public authorities implementing economic policy. Generally we can distinguish two types of state subsidies. The purpose of *subsidies for goods and services* is to protect consumption-related decisions of households. In this case the consumption of selected goods or services is subsidised. By means of *subsidies for enterprises* the government gives financial support to certain economic units, usually state-owned enterprises, in economic sectors regarded as crucial. There are also wider concepts of subsidies that - apart from these expenditures - cover also some measures connected with public revenues, e.g. preferential interest rates for credits (Földi et al. 1992). However, for purpose of better distinction and clarity of terms, the narrower meaning of subsidies will be used in this paper.

The concept of state aid is wider than of state subsidies. The last ones constitute the term of unified character, at least from the formal point of view, though numerous entities can be subsidised. State subsidies - as a kind of public expenditure for enterprises placed in budgetary reports - are of "direct" or "explicit" nature. The concept of state aid involves - apart from disparagement of public payments - also some "indirect" or "implicit" expenditure. So called "soft loans" (e.g. loans given with preferential interest rate) or capital transactions (e.g. capital investment of the Treasury in certain undertakings) are good examples.

However, suggestion that all state subsidies make up the part of the state aid would not be precise enough. It depends whether given instrument of economic policy has the influence on conditions of competition. The explanation can be facilitated by two examples of subsidies: (1) subsidies to inter-city transportation (bus tickets), and (2) subsidies to selected state-owned enterprises that are indebted in Social Insurance Office (restructuring of unpaid social contributions). In case of the first ones public expenditure does not influence on the market in question (services of bus transport). Subsidies of this type support consumption of households - they stimulate consumers' decisions (choice of means of transport). However, they do not distort market competition - each company rendering appropriate services can be granted such a subsidy. Subsidies to goods and services do not belong then to the category of state aid, in which selectivity is vital. As far as second example is concerned, subsidies for restructuring the debts of enterprises are selective by purpose. Thus granting them to specific

---

<sup>3</sup> According to Földi et al. (1992), transfers to households are described as "grants" and thus will not be considered in this paper.

economic entities create better market position. Such instruments are then covered by term of state aid.

Moreover, it should be noted that there are also some disparagements of public payments that are not state aid. For the distinction the same "criterion of selectivity" can be used - instruments of overall character, accessible to any economic unit, are not regarded as the part of the state aid. Again, a couple of examples may be helpful: (1) allowance in corporate income tax on investment expenditures and (2) tax allowance on investments realised in enterprises that export a certain part of their turnover. While the latter case is a typical state aid instrument, the first one is not considered as covered by this term.

State subsidies seem to make up less complex term than state aid concept also with respect to an issue of measurement. State aid's elements are of different character and require various approaches when the net element of aid is to be assessed. In case of subsidies, it is not necessary to estimate the net aid element, since they are transparent element of the state aid. However, as far as some other forms of the state aid are concerned, e.g. credit guarantees or tax deferrals, these aid elements require more specific calculations<sup>4</sup>.

Until the early nineties in the European Union there was no clear definition of financial aid of the state for enterprises (Podlasiak 1995b). There was also no common agreement on how to measure this phenomenon. As a consequence, the scope of identified state aid substantially varied in results of different researches - within a given country as well as between EU countries. On the other hand the liberalisation of economic co-operation within EU became a crucial reason for verification of the attitude to state aid practices - protection of competition has caused more restrictive approach to state aid (CDC 1998). There was a need for standardisation of the research method and the European Commission has worked out the methodology for measuring state aid. Due to different methods of net aid element calculation, four forms of aid can be distinguished (Podlasiak 1996, MG 1998b):

(A) **Subsidies and public dues exemptions** are a kind of aid for which the net aid element is equal to the value of the transfer. The sub-group A1<sup>5</sup> includes different public expenditures like subsidies and expenses to finance preferential credits. Sub-group A2 covers transfers given at the cost of public claims: tax or social insurance contribution reductions, tax relieves, tax exemptions, etc.

---

<sup>4</sup> For example, in case of preferential loans amounting  $L$ , granted at interest rate  $R_1$ , while market interest rate is  $R_2$ , the net element of the state aid (NE) will be calculated as follows:  $NE = L \times (R_2 - R_1)$ .

(B) **Capital investment** within sub-group B1 includes capital engagement of the state in companies in order to overcome their difficult financial situation, while in sub-group B2 there are conversions of long-term liabilities of state-owned enterprises (so called bad credits) into shares.

(C) **Soft loans** consist of expenses in form of credits granted at special favourable conditions and conditionally deferred credits (sub-group C1), as well as favourable deferment of payments of taxes or social insurance contributions (sub-group C2).

(D) **Credit guarantees.** These instruments of state support to enterprises are arranged to facilitate their access to credit. Public authorities are guarantor of the future credit contract - financial institutions would not probably give credit at certain financial situation without a guarantee made by the government.

Most authors in Poland understand the differences between the terms of state aid and state subsidies as it has been drawn above (cf. Fornalczyk 1996, Podlasiak 1995a). However, there are scientists who seem not to share this attitude (cf. Misiag 1996, Zienkowski 1996). Nevertheless, as it will be shown in the fourth section, most of Polish researchers follow the concept of state aid as well as the measurement methods worked out by the European Commission (cf. CDC 1996, MG 1998a, b).

## 2. State Support to Enterprises in Pre-transition Decade in Poland

In centrally planned economy subsidies were the prevailing form of aid granted to enterprises. This was a common form of support for state owned enterprises. In a highly centralised budgetary system the process of subsidising was also highly centralised (Misiag 1996). Public authorities, standing as a guarantor and guardian of the central plan, subsidised selected sectors of industry. Consumer goods purchased by the households were also subsidised – this kind of public expenditure was called subsidies to goods and services or price subsidies.

Other forms of aid, such as tax exemptions, were of no significance and thus were not common. In the centrally planned economy the tax system did not constitute an important element of redistribution - no tax was imposed on personal income (tax on wages was de facto paid by the employer) and enterprises received large subsidies.

---

<sup>5</sup> See also table 6.

*Table 1. Poland: State subsidies in the 80-ies (as % of the state budget current expenditure)*

Item	1980	1985	1988
State subsidies for economic entities	61,2	39,3	42,5
- to goods and services	26,3	24,7	35,2
- to enterprises' activities	34,9	14,6	7,3

Source: Own calculations based on Central Statistical Office (1990) data.

In the 70-ies both price subsidies and subsidies granted to state enterprises constituted a large share of public expenditure. During the decade before the onset of the transition the significance of these subsidies dropped down. In the 80-ies the drop in direct state expenditure for subsidising enterprises was quite radical, from 35% to 7% of current budget expenditure. Price subsidies, despite some liberalisation which had just started at that time, were still very important and constituted over 35% of budgetary expenditure in 1988 (Sajkiewicz 1996). However, liberalisation of prices in that period caused a decrease in the amount of subsidy to the price of goods (Golinowska 1988). Reduction of subsidies, especially subsidies for enterprises, just before the period of transformation, gave Poland a better chance to abandon the costly policy of subsidising state owned enterprises, so typical for socialist economies.

### **3. State Subsidies for Enterprises in the Period of Transition**

In this section an attempt is made to present the scale and forms of state subsidies for enterprises in the period of transition. The description will by no means be exhaustive, especially because no account will be given of non-budgetary means (public funds and agencies of public authorities). However, the purpose of this approach is an attempt to perceive certain trends in the management of public funds by the chief administrator of the budget, i.e. the Council of Ministers.

The analysis has been divided into two periods: 1990-1993, when Poland moved from a deep production crisis towards a moderate economic growth, and 1994-1996, which was a period of a relatively good economic situation. Both periods are characterised by different trends towards subsidising enterprises.

#### **3.1. Reduction of Subsidies in the First Phase of Transition (1990-1993)**

Considerable changes took place in the first phase of transformation as far as the policy towards enterprises is concerned. Direct subsidies for enterprises were radically reduced already in 1990 (cf. Table 2). In comparison to 1989 the reduction was considerable,



amounting to 4,8% of the GDP, especially as the decrease in production was the sharpest in 1990. Three main factors played the most significant role in the reduction of subsidies for enterprises:

**1. Liberalisation of prices of consumption goods and services.** The limitation of the scope of official prices, that took place mainly in 1990, resulted in a dramatic decrease in price subsidies. In a number of cases this process of price liberalisation implicated that it became possible to withdraw subsidies altogether. Only some kinds of subsidies were maintained to the so-called social prices of public goods. Subsidies to goods and services did not improve directly the financial situation of enterprises as they concerned mainly household consumption, however price advance must have influenced some enterprises, reflecting ineffectiveness of formerly subsidised entities.

**2. Conviction that selected sectors of the economy do not need state support.** Public authorities, implementing liberal policy, assumed that various economic entities would be able to adjust quickly to a new economic situation. "The best industrial policy of the state to enterprises is no policy"<sup>6</sup>. Subsidies for enterprises intended to support new investments decreased even more and remained at a very low level (Owsiak 1997, p. 374). The money was allocated mainly to central investments that were under way.

**3. Creation of the tax system appropriate to the market economy.** In 1992 personal income tax and corporate income tax were introduced. In July 1993 Value Added Tax was introduced. The new tax system was characterised by a new attitude towards market situation. However, it allowed certain allowances and exemptions for companies. In the first phase of the transformation state aid to legal entities in the form of tax operations was limited. Only in 1994 these instruments were applied more frequently, e.g. investment allowances were introduced at that time.

*Table 2. Poland: Subsidies for enterprises in relation to GDP in the period 1989-1996.*

Item	1989	1990	1991	1992	1993	1994	1995	1996
Subsidies for enterprises in % of the GDP	13,5	8,7	2,4	1,7	1,2	1,2	1,1	0,7

Source: For years of 1989-1995: Owsiak (1997), p. 354; for 1996: own calculations.

In the period 1990-1993 product subsidies dominated - these were mainly subsidies to the so-called social prices (railways and buses, meals in cheap self-service restaurants, selected

---

<sup>6</sup> A famous comment made by Mr. Tadeusz Syryjczyk, the Minister of Industry and Commerce in that period.

school and university handbooks). Subsidies to coal mining were gradually, but firmly, liquidated and disappeared altogether after the first quarter of 1992. Some commitments which resulted from galloping inflation were met by means of product subsidies, such as subsidies to reimbursement for people who could not purchase cars as the value of the advance payment they made has declined.

Subsidies for enterprises covered mainly the costs of restructuring of industry and the costs of railways (cf. Table 4). Tendencies to subsidise defensive industry became stronger. Thanks to effective lobbying in the Parliament, the share of funds earmarked for the defensive industry in relation to total amount of subsidies increased.

*Table 3. Poland: The Treasury dues as % of the state revenues in the period 1991-1996.*

Item	1991	1992	1993	1994	1995	1996
Total dues of the Treasury	20,2	22,8	30,7	27,3	28,5	21,5
Outstanding tax and non-tax related payments	14,9	13,9	14,3	11,2	9,1	8,0
including: - corporate income tax	-	1,6	2,1	1,6	1,6	1,2

Source: Data derived from *State Budget Reports* (Council of Ministers 1992, 1994-7).

Due to the reduction of subsidies, enterprises began to liquidate their social infrastructure: company hotels, crèches, nursery schools, holiday centres, company flats, dining halls (Glogosz, Kurowski 1998). However it is difficult to assess the scope and character of this process, it seemed to be very common<sup>7</sup>. Receiving no more subsidies to production and facing rapid market fluctuations, state owned enterprises, instead of launching structural changes, cut their costs regarded as essential for survival.

As a result of such policy towards enterprises, the state soon faced a serious problem: in the period of a sharp decrease in production (1990-1991) the ineffective sector of state owned enterprises did not manage to adjust itself to new economic conditions. Income tax receipts fell down due to lower profitability of enterprises. Outstanding tax and non-tax public dues increased - in the period 1991-1993 they constituted 14-15% of the budgetary revenues (cf. Table 3).

<sup>7</sup> A questionnaire survey on subsidies, social benefits and economic strategy, which is led currently in more than 170 Polish enterprises, will probably allow examining this phenomenon in more detail.

### 3.2. Continuation of State Aid to Selected Monopolies and Branches (1994-1996)

Growing public dissatisfaction, which manifested itself (inter alia) in a high number of strikes in the period 1992-93<sup>8</sup>, forced public authorities to revise the economic policy, including the method of financing economic entities. The amount of subsidies related to GDP was maintained in 1994-95, when it did not exceed a relatively low level of 1,1%. In 1996 the relative scope of state subsidies decreased to 0,7% of GDP.

In the period from 1994 to 1996, apart from keeping the mechanism of subsidies unchanged, new elements of indirect support to enterprises were introduced, including (Misiag 1996):

- tax allowances and exemptions, both general and individual,
- deferment of tax payments,
- amortisation of accumulated interest on outstanding tax payments,
- allowances and exemptions in relation to non-tax public payments,
- the right to accelerate the amortisation in regions with risk of high unemployment,
- amortisation of budget dues on credits guaranteed by the Treasury.

Some experts express the opinion that such instruments of supporting the industry have undermined the effectiveness of the tax system, which was becoming more and more inadequate. On the other hand, introduction of them caused that further reduction of subsidies was possible.

Forms and structure of government subsidies are presented in table 4. The share of subsidies to goods and services in total amount of state subsidies fluctuated. Nevertheless, with the exemption of the year 1993, a tendency of decreasing their share up to 1994 is noticeable. In 1995 this relation reached its minimum amount of 18,1%, afterwards a renewed increment is observed. Subsidies to building co-operatives, after rapid growth in 1992 tend to decrease in total amount. They include covering charges of modernisation of central heating system, hot water transmission, installation of water-meters, etc. Subsidies to economic entities present rather distinct tendency - their share in total state subsidies keeps rising. In 1991 they amounted only 27% of the state subsidies, while in 1996 they constituted majority i.e. 55,6%.

---

<sup>8</sup> In the period 1992-1994 the number of strikes was, respectively: 6351, 7443 and 429. Cf. Zukowski (1997).

Table 4. Structure of state subsidies to economic undertakings in the period 1991-1996 (in %).

Item	1991	1992	1993	1994	1995	1996
1. Subsidies to goods and services	42,4	25,8	35,9	21,8	18,1	27,3
a) to coal	25,3	3,7	0,0	0,0	0,0	0,0
b) to public railway transport	10,1	12,2	16,6	13,8	11,8	19,9
c) to inter-city transport	4,6	5,9	8,0	6,7	4,8	5,7
d) to agricultural fuel and fertilisers	2,0	2,5	10,9	0,0	0,0	0,0
e) to meals in cheap self-service restaurants	0,2	0,2	0,2	0,2	0,3	0,4
f) to advance payments for cars	0,0	1,3	0,0	0,8	1,0	1,0
g) to specialist handbooks	0,2	0,2	0,3	0,3	0,3	0,3
2. Subsidies to entities & other subsidies	27,1	29,1	36,8	59,1	65,4	55,6
a) restructuring of industry	7,9	8,1	10,3	26,4	12,1	25,5
b) restructuring of agriculture	5,9	0,0	0,0	0,0	0,0	0,0
c) restructuring of indebtedness in ZUS	0,0	0,0	0,0	0,0	26,3	8,7
d) maintenance and overhaul of the railway infrastructure	7,1	12,2	16,6	13,8	12,2	0,0
e) maintenance of production potential (defensive industry)	0,0	3,9	5,6	5,6	4,9	6,0
f) subsidies to credit interest rate for farmers	0,0	0,0	0,0	10,1	8,3	13,3
g) other subsidies	6,2	4,9	4,3	3,1	1,5	2,1
3. Subsidies to building co-operatives	27,9	44,1	27,3	19,1	14,9	14,1
4. Other subsidies	2,5	1,0	0,0	0,0	1,7	2,9
Total	100,0	100,0	100,0	100,0	100,0	100,0

Source: Own calculations based on the data derived from *Sprawozdanie z wykonania budżetu państwa (State Budget Report)* (Council of Ministers 1992, 1994-7).

Changes in the structure seem to be quite meaningful - price elements tend to decrease while government takes more attention to support specified economic entities. However, if we look at the structure of subsidies in terms of different sectors, it is noticeable that changes are actually not as radical as the structure of forms would suggest (cf. table 4). Let us take two sectors as examples: coal mining and transport. If we would take into account only subsidies to goods, it would seem that government provides a very liberal policy towards the mining industry. Although in 1992 price subsidies to coal were withdrawn, in the following years this sector received subsidies in other forms, such as subsidies for restructuring (amounting in 1996 25,5% of total subsidies), including liquidation of mines and mining damage and social allowances for dismissed workers. The most important beneficiary aid of this kind is the coal mining industry - in 1996 it absorbed 51,8% of the subsidies granted for industry restructuring (NIK 1997).

A unique form of subsidising was developed in 1995 - a subsidy for restructurisation of the indebtedness in ZUS (Social Insurance Fund) due to outstanding social insurance contributions. Although an element of restructuring was mentioned in relation to this subsidy, the process of granting was not conditional on restructuring. The debts were partly reduced, however no guarantees were given or steps taken in order to prevent similar situations in the future.

One of the major beneficiaries of state aid is also the transport industry. Subsidies to railway tickets and inter-city bus transportation, which are the most important part of subsidising household consumption, are not the only form of aid targeted to transport sector. It also benefited from large subsidies to maintenance and overhaul of the railway infrastructure. This form of subsidies increased most in the period 1992-1993; afterwards it remained a relative high position up to 1995. In 1996 this kind of subsidy disappeared. But this could be explained by shifting these expenses to a form of more extended subsidies to railway transport that amounted almost one fifth of total subsidies. The last ones increased by 6 percentage points in the period of 1995-1996. Government subsidies granted to inter-city bus transportation have amounted 5,7% in 1996.

It is noticeable that within the subsidies for enterprises, the maintenance of production potential of defensive industry is of steady growing share - in 1996 it amounted almost 6 percent of total subsidies.

We can also notice that one of the sectors subsidised by the state is agriculture. It also benefits from such forms of public support as: price subsidies to charges of fuel and fertilisers, subsidies for the restructuring of agriculture and preferential interest rates of credits (soft loan). Two forms that existed in first years of transition (subsidy to prices and for restructuring of agriculture) were later replaced by surcharges to preferential credits.

To summarise, we can say that changes in forms of subsidies can then be misleading - apart from changes in the structure of forms we should take into account also beneficiaries of granted state support. In this regard, the phenomenon is harder to estimate - budget reports do not contain detailed information where directly public resources are spent. There are some opinions and information, however they are partial and not always proved by exact data. For instance, there is a conviction that subsidies are mostly granted to state-owned enterprises (Misiag 1996). However instead of systemic view only several examples are available in this question: restructuring social security contribution indebtedness in ZUS were granted only to state-owned enterprises and companies held by the state. The same matter with industry-

restructuring subsidies. Price subsidies to transport are targeted to monopolists in railway section (PKP) as well as in bus inter-city transport (PKS). Another aspect is that governmental subsidies are in fact preserving old structures. Most of them are spent on operational expenses; they are very rarely used on investments. Subsidies do not seem to correct the market failures.

#### **4. The Evolution of Researches on State Aid in the Period of Transition**

In this section several research findings will be presented, however they are not fully compatible, since the scope of research and the time period are different.

Researches and analyses on the state aid were started in Poland relatively late. The first attempt to measure the scope and forms of state aid was done for the year 1993 (MPiH 1995). It is worth asking, why the research of that approach was launched so late? It seems that the main reason of the delay was the resistance of public administration as well as political authorities. Bureaucrats did not want the mechanism of subsidising to be deeply examined since it would narrow down their discretionary decisions. On the other hand, it was not politically correct to open the discussion about evaluation of suitability of different forms of public support to the enterprises.

One political factor contributed positively to state aid researches: the European Agreement with Poland that came into force in February 1994. In the perspective of joining the European Union, Poland is expected to harmonise the law in different areas, including public finance and state aid (CDC 1998, MPiH 1995). Researchers have adopted the term of state aid and methods of measuring it as the European Commission worked it out.

As already mentioned, first research of state aid examined the situation in 1993 (Podlasiak 1995a). The research project was commissioned to the Ministry of Industry and Trade. The aim of the project was to measure the aid targeted only to industrial sector. Most of the information was given by institutions of central administration (ministries, central agencies, etc.), in case of lack of data, estimations were done.

The identified state aid targeted to all economic units contributed about 2,8% of GDP. It amounted 49% of state aid directed to the economy from public sources. Budgetary transfers (subsidies, tax allowances, tax exemptions etc.) constitute in fact only 57% of state aid (cf.

table 5). It should be noted that within the group A, there is also a subsidy for the indebtedness restructuring of state-owned enterprises in banks<sup>9</sup>. Seven state-owned banks were given special government bonds for the remission of bad credits. Another interesting form of state aid was remission of tax liabilities. Credit operations, including soft loans and deferred taxes (group C - soft loans) have also meaningful share of 34%, however they do not constitute the unified element. Poland has a relatively high share of government guarantees (7,5%), what fits to the opinion of relatively higher political engagement of the state towards problems of the industry sector.

*Table 5. Poland: The Scope and Structure of State Aid. Researches in 1993-1996 (in %).*

Years	1993	1994	1995	1996
Research Centre	MPiH	CDC	MG	MG
State aid as % of GDP	2,8	3,8	3,2	2,5
A (subsidies and public dues exemptions)	57,0	38,3	63,9	63,2
B (capital investment)	1,5	4,3	1,7	0,5
C (Soft loans)	34,0	38,2	30,1	33,9
D (Credit guarantees)	7,5	19,2	4,3	2,3
Total	100,0	100,0	100,0	100,0

Source: For 1993: MPiH 1995, for 1994: CDC 1996, for 1995-96: MG 1998a, b.

Note: Classification as used in section 2.

Although the task of estimating the scope and forms of state aid turned out as possible, the study did not explore the specific mechanisms of granting it. The attempt to examine the nature of the Polish state aid granting process was made in a research project commissioned by the Office of Protection of the Competition and Consumer, realised by Competition Development Centre (CDC) for the year 1994. However, main budgetary institutions - the Ministry of Finance and Social Security Fund - responsible for granting most of state aid, did not answer on specific questions. Thus the outcomes of the research are burdened with uncertainty and are not representative. Nevertheless, key findings of the study seem to reveal some tendencies (Fornalczyk 1996):

- Total identified state aid in Poland in 1994 amounted 3,8% of GDP.
- 40% of the state aid was granted to the industrial sector, 15% was given to the transport sector.
- State support was mainly directed to large state-owned enterprises, located in big and middle cities. Most of the granted resources had operational character (they covered

<sup>9</sup> For the CDC research project for 1994, this kind of support was not regarded as an element of state aid, since

current expenses of the enterprise), although in legal declarations the restructuring aims were underlined. The realised policy was clearly inconsistent with explicit goals of economic policy.

- It is interesting that unpublished internal instructions established by different offices contributed 6% of all acts on which the process of granting aid was based. In many legal acts goals of granted support are missing. This reveals how unclear the situation was in the Polish law system in this respect. There was a weak control on how in fact public resources are spent in the field of state aid.
- Almost half of the granted aid directly distorted market competition by privileging its beneficiaries by financing current costs of operation. Such a policy causes protection of old ineffective units, of which transport and mail sectors benefited most.

The CDC report was very influential on the attitude of the authorities towards further activities. After a diagnostic part a proposal of state aid regulation was prepared. The authorities did not realise the project of act. Nevertheless, in 1996 at the Ministry of Economy a Team for Rules of State Aid was created. It is responsible for monitoring the scope and forms of granted aid as well as for preparing legal regulation on the state aid.

*Table 6. Poland: Structure of Granted State Aid in 1994-1996 (in %).*

Years		1994	1995	1996
Forms of state aid	Sub-groups	CDC	MG	MG
A (subsidies and public dues exemptions)	A1	25,8	21,7	17,4
	A2	12,5	42,2	45,8
B (capital investment)	B1	4,3	0,1	0
	B2		1,6	0,5
C (Soft loans)	C1	1	15,6	5
	C2	37,2	14,5	28,9
D (Credit guarantees)	D1	19,2	4,3	2,3

Source: For 1994: CDC 1996, for 1995-96: MG 1998a, b.

Note: Classification as used in section 2.

It should be underlined that the Team was in a much better situation than the former ones. First, because it was a governmental institution specially delegated towards the task of measuring the aid of state. CDC, although realising the research project for central administration unit, did not manage to get most questionnaires filled out in detail. The second reason is because of the better experience of the respondents.



Both reports for 1995 and 1996 (MG 1998a, b) examine the state aid granted to the following sectors: industry, mining, housing, retail and wholesale trade, transport, communication, hotels and restaurants. The share of state aid in GDP amounted 3,2% and 2,5% respectively. The structure of instruments identified in that period suggests that subsidies as well as reductions or exemptions from public dues are of key importance, totally amounting 63,9% in 1995 and 63,2% in 1996. Within this group two elements are meaningful: tax exemptions and tax allowances (37,5% and 34,2% respectively), and subsidies (21,7% and 17,4%), while amortisation of taxes and other public dues makes up a small fraction. In the period of 1995 - 1996 soft loans constituted an important part of the state aid - 30,1% and 34% respectively. A structural change is noticeable within this group. While elements of the expenditure side - preferential credits, conditionally deferred credits and not paid fees - prevailed in 1995, instruments that reduce public revenues - postponements, deferrals of taxes and social insurance contributions - seem to dominate in 1996. However, this is not because of systemic change in the state aid, the reason is that tax deferrals, amounting in 1996 14,3% of the state aid, were not assessed for 1995 (MG 1998b). State guarantees to credits tend to decrease (from 4,3% to 2,3%), while the share of the capital engagement of the state is practically diminishes (0,5% in 1996).

In summary: we can say that the outcomes of identified forms and structure of state aid vary in presented researches. Especially the CDC research is outstanding in this respect - only in this report public guarantees amount nearly 20% of aid. Also capital engagement of the state treasury is ranked relatively high in this study (cf. table 5). It is not possible to identify the factors causing such a big differentiation - it depends in part on the scope of research and the method of collecting data as well as on the period of research. Nevertheless, a general remarks on the state aid forms in Poland can be drawn from these research results:

- Subsidies and reductions of public dues are the most common forms of state support, amounting in 1994-95 from 38% to nearly 64% of the total granted aid. However, the internal structure also changes: while subsidies decrease relatively, tax and non-tax operations (deferrals, exemptions) are more important amounting in 1996 nearly 46% of the whole state aid.
- Another common instrument of granting aid are soft loans - their share in total state support is also meaningful amounting from 30% in 1995 to 38% in 1994. It is hard to conclude on the structural changes of soft loans. It seems that operations reducing public revenues - tax and non-tax postponements, deferrals of taxes and non-tax payments - are

prevailing (14,5% in 1995, 37% in 1994). On the other hand, "soft loan" operations made at expense of the budget or public fund, with the exception of 1995, tend to make up small fraction (from 1 to 5% of the state aid).

- Other forms of aid - capital investment of state resources and public guarantees - do not constitute a large part, however the latter ones were also essential part of aid in 1993-1994.

The comparison of Polish state aid forms with European Union countries is hardly possible, since available data for EU reflect earlier period of time (1992). Nevertheless, it is worth to mention that for Poland in comparison with European patterns, differences are most noticeable in two respects (cf. Podlasiak 1996):

- In the European Union countries (treated as a whole) subsidies and public dues reductions constitute actually main instrument of the state aid amounting more than 90% (1992), while in Poland the share of group A is 63,2%,
- Both in the European Union countries and in Poland operations on capital have second largest share. However in Poland it is relatively essential share amounting almost 34%, while in Western Europe it does not exceed 4%.

## **Concluding remarks**

The scope of governmental subsidies and state aid presented here reflexes to some extent the character of industrial policy in Poland. Before the transition state subsidies have been successfully reduced in the 80-ies, what allowed further changes in first years of the 90-ties. However from 1993 the scope of subsidisation related to GDP remained unchanged.

Apart from attitudes to the industrial policy, state subsidies illustrate also social policy goals fulfilled by the state support targeted to economic units. Looking at state subsidies it is not difficult to find examples of the economic support granted for social reasons: prise subsidies play social role - their purpose is to support households - as well as some other subsidies targeted to entities with economic problems - e.g. restructurisation of indebtedness in ZUS.

State aid in Poland has become an issue for research relatively late. Its scope is much wider than of subsidies. In 1996 government subsidies related to GDP constitute not more than 1,1%, while state aid granted from central administration to economic entities amounted 2,5%. The results of identified the state aid and its structure allow us to conclude that

although state aid in Poland has become an interesting issue of scientific research, it is hard to find out and monitor the actual processes and mechanisms of granting it.

Despite of the fact that Poland is thought to be one of the pioneers of transitional economies, the state aid system is yet based on not reformed legal acts (CDC 1996). A systemic approach to the process of granting the state aid means its institutionalisation - there is a need to create a unit that would co-ordinate and approve projects of the state support. The government has already accepted such a legal proposal, worked out mainly by the Team for Rules of the State Aid at the Ministry of Economy. In this proposal the Ministry of Economy would be responsible for granting state aids programmes, in co-ordination with the Ministry of Finance and the Office of Protection of the Competition and Consumer. It is probable that a new institution of state aid monitoring will be established by the end of this year. However, one can not forget about potentially strong resistance from public administration.

## References

- CDC (Competition Development Centre) (1996) Diagnoza systemu pomocy publicznej w Polsce. Dane za 1994 rok (Diagnosis of State Aid System in Poland in 1994 ), Lodz.
- CDC (Competition Development Centre) (1998) State Aid Regulation. Economic Comment, Lodz, (unpublished materials).
- Földi, A./Knirsch, P./Szamuely, L./Watts, N. (eds.) (1992) Marktwirtschaft und Planwirtschaft. Ein Enzyklopädisches Wörterbuch, vol. II., K. G. Saur, München, London, New York und Paris. Keyword: Subsidies.
- Fornalczyk, A. (1996) Subsidiowanie przedsiębiorstw państwowych. Skala zjawiska i co dalej? (Subsidising State Enterprises in Poland: Scale of the Process), Ekspertyza dla Rady Strategii Społeczno-Gospodarczej przy Radzie Ministrów RP (Expertise commissioned by Council of Socio-Economic Strategy at the Council of Ministries), Warsaw.
- Glogosz, D./Kurowski, P. (1998) Institutionalisation of Family Policy in Poland in Period of Transition: The Role of the Third Sector. Paper presented on workshop Institutionalisation of Family Policy, University Autònoma de Barcelona, 19-21 Faberuary.
- Golinowska, S. (1988) Redystrybucja przez ceny (Redistribution through prices). In: Morecka, Z. (ed.) Teoria i praktyka podziału (Theory and Practice of Redistribution), PTE, Warsaw.
- GUS (Central Statistical Office) (1990) Rocznik Statystyczny (Statistical Yearbook), Warsaw.
- MG (Ministry of Economy) (1998a) Raport o pomocy publicznej udzielonej w 1995 roku podmiotom gospodarczym (Report on State Aid Granted to Economic Entities in 1995), Warsaw.
- MG (Ministry of Economy) (1998b) Raport o pomocy publicznej udzielonej w 1996 roku podmiotom gospodarczym (Report on State Aid Granted to Economic Entities in 1996), Warsaw.
- Misiąg, W. (1996) Subsidiowanie przedsiębiorstw państwowych. Skala zjawiska i co dalej? (Subsidising State Enterprises: Scale of the Process). Ekspertyza dla Rady Strategii Społeczno-Gospodarczej przy Radzie Ministrów RP (Expertise commissioned by Council of Socio-Economic Strategy at the Council of Ministries), Warsaw.
- MPiH (Ministry of Industry and Trade) (1995) Pomoc publiczna dla podmiotów gospodarczych. (State Aid for Economic Entities in Poland), Departament Strategii i Polityki Gospodarczej, Warsaw.

- NIK (National Office of Control) (1997) Analiza wykonania budżetu państwa i założenia polityki pieniężnej w 1996 r. (Analysis of The State Budget Realisation and Monetary Policy Assumptions in 1996), Warsaw.
- Owsiak, S. (1997) *Finanse publiczne: Teoria i praktyka*. (Public Finance: Theory and Practice), WN PWN, Warsaw.
- Podlasiak, Z. (1995a) Mapa subsydialna pomocy państwa dla przedsiębiorstw w Polsce. (Map of the State Aid to Enterprises in Poland), in: MPiH (1995), Warsaw.
- Podlasiak, Z. (1995b) Pomoc państwa dla przedsiębiorstw w praktyce państw członkowskich UE. (State Aid for Enterprises: The Practice of EU Countries), in: MPiH (1995), Warsaw.
- Podlasiak, Z. (1996) Analiza porównawcza pomocy publicznej w Polsce i w krajach członkowskich UE. (State Aid in Poland and in UE: Comparative Approach), in: CDC (1996), Łódź.
- Rada Ministrów (Council of Ministers) (1993) Sprawozdanie z wykonania budżetu państwa za okres od 1.01 1992 do 31.12 1992. (State Budget Report for the budgetary year of 1993), Warsaw.
- Sajkiewicz, B. (1996) State Price Policy. In: Golinowska, S. (ed.) *Social Policy in the 1990s. Legal Regulations and Prospected Results*. IPiSS, Warsaw, p. 82-101.
- Zienkowski, L. (1996) Subsidiowanie przedsiębiorstw państwowych. Skala zjawiska i co dalej? Nieudana próba kwantyfikacji, (Process of Subsidising State Enterprises: Unsuccessful Attempt of the Identification the Scale), Ekspertyza dla Rady Strategii Społeczno-Gospodarczej przy Radzie Ministrów RP (Expertise commissioned by Council of Socio-Economic Strategy at the Council of Ministries), Warsaw.
- Zukowski, T. (1997) Prawomocność systemu władzy i społeczna partycypacja w rządzeniu. (Legal validity of the authorities and social participation in ruling the power), in: Raport o rozwoju społecznym. Zmieniająca się rola państwa. Polska'97, (Social Development Report: Changing Role of the State), UNDP, Warsaw.

## Also published in this series:

### Finanzwissenschaftliche Diskussionsbeiträge

Nr. 1	7/95	H.-G. Petersen	Economic Aspects of Agricultural Areas Management and Land/Water Ecotones Conservation
Nr. 2	7/95	H.-G. Petersen	Pros and Cons of a Negative Income Tax
Nr. 3	7/95	C. Sowada	Haushaltspolitische Konsequenzen steigender Staatsverschuldung in Polen
Nr. 4	8/95	C. Bork	Die Elektrizitätswirtschaft in der Bundesrepublik Deutschland - Das Tarifpreisgenehmigungsverfahren und seine Auswirkungen auf eine potentielle Netzübernahme nach Ablauf von Konzessionsverträgen
Nr. 5	10/95	H.-G. Petersen	Transformation Process After Five Years: Behavioral Adaptation and Institutional Change - The Polish Case
Nr. 6	11/95	C. Bork K. Müller H.-G. Petersen Wirths	Wider den Sachzeitwert - Untersuchung zur Frage des angemessenen Übernahmepreises von Elektrizitätsversorgungsnetzen
Nr. 7	1/96	C. Sowada	Sozialpolitik im Transformationsprozess am Beispiel Polens
Nr. 8	4/96	K. Müller T. Nagel H.-G. Petersen	Ökosteuerreform und Senkung der direkten Abgaben: Zu einer Neugestaltung des deutschen Steuer- und Transfersystems
Nr. 9	6/96	H.-P. Weikard	The Rawlsian Principles of Justice Reconsidered
Nr. 10	9/96	H.-G. Petersen	Effizienz, Gerechtigkeit und der Standort Deutschland
Nr. 11	10/96	H.-P. Weikard	Sustainable Freedom of Choice - A New Concept
Nr. 12	2/97	C. Bork K. Müller	Aufkommens- und Verteilungswirkungen einer Reform der Rentenbesteuerung mit einem Kommentar von H.-P. Weikard zu Rentenbesteuerung und Korrespondenzprinzip
Nr. 13	2/97	C. Bork	Ein einfaches mikroökonomisches Gruppensimulationsmodell zur Einkommensbesteuerung
Nr. 14	3/97	H.-G. Petersen	Das Neuseeland Experiment: Ist das die zukünftige Entwicklung des deutschen Sozialstaats?
Nr. 15	4/97	H.-P. Weikard	Contractarian Approaches to Intergenerational Justice
Nr. 16	8/97	H.-G. Petersen C. Bork	Schriftliche Stellungnahme zum Entwurf eines Steuerreformgesetzes (StRG) 1999 der Fraktionen CDU/CSU und F.D.P.
Nr. 17	10/97	H.-P. Weikard	Property Rights and Resource Allocation in an Overlapping Generations Modell
Nr. 18	10/97	C. Sowada	Wieviel Staat braucht der Markt und wieviel Staat braucht die Gerechtigkeit? Transformation des polnischen Sozialversicherungssystems im Lichte der deutschen Erfahrungen
Nr. 19	12/97	C. Bork K. Müller	Effekte der Verrechnungsmöglichkeit negativer Einkünfte im deutschen Einkommensteuerrecht

Nr. 20	01/98	C. Bork H.-G. Petersen	Ein Vergleich möglicher Datensätze zur Eignung für steuerpolitische Simulationsrechnungen
Nr. 21	02/98	S. Gabbert H.-P. Weikard	Food Deficits, Food Security and Food Aid: Concepts and Measurement

## **Specials Series:**

### **Industrial and Social Policies in Countries in Transition**

No. S-1	12/97	H.-P. Weikard	Industrial Policies and Social Security: Investigating the Links
No. S-2	06/98	H.-G. Petersen C. Sowada	On the Integration of Industrial and Social Policy in the Transition Process
No. S-3	06/98	B. Czasch A. Balmann M. Odening T. Soboczek M. Switlyk	Die Umstrukturierung landwirtschaftlicher Unternehmen beim Übergang zur Marktwirtschaft unter besonderer Berücksichtigung des Faktors Arbeit
No. S-4	06/98	R. Bakardjieva C. Sowada	Soziale Sicherung in Bulgarien 1991-1997. Entwicklung - Stand - Perspektiven
No. S-5	06/98	R. Bakardjieva	Der Privatisierungsprozeß in Bulgarien - Strategien, Widersprüche und Schlußfolgerungen
No. S-6	06/98	M. Bednarski	Privatisation Policy and Industrial Policy in Poland in the Period of Transformation
No. S-7	06/98	G. D. Demopoulos E. K. Fratzeskos	Macroeconomic Developments and Problems in the Transition Process of the Bulgarian Economy