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## Public Social Expenditures in Poland in the Period of Transition

by

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# Public Social Expenditures in Poland in the Period of Transition

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## Introduction

The study presents estimates and analyses of the social expenditure in Poland. Changes which occurred during the transformation period are a reflection of consciously launched political transformations as well as decisions taken as a result of current needs and political pressures. This has an impact on the volume and structure of expenditures which are under consolidation. The debate devoted to budget issues, which gets more intense every autumn, testifies to increasing problems with correcting guidelines for distribution of expenditures. Even slight changes stand for depriving a specified group of transfers, what in democratic conditions produces strong protests.

A similar negative attitude to changes became evident with regard to taxation. Recommendations presented in 1998 by the Polish government [see Ministry of Finance, 1998a, 1998b] introduce substantial modifications to the current tax system (withdrawal from tax exemptions and introduction of a tax-free minimum income) and thus met with a massive reluctance of major political fractions.

This study provides readers with information on the volume of public expenditures, the source of public revenue, that is taxes, and a thorough study on expenditures allocated to social goals. The analysis was carried out on the basis of own estimates, which employ data acquired from the Ministry of Finance and the Ministry of Labour and Social Policy.

## 1. Public Finance in Poland

Social expenditures constitute a substantial portion of public expenditures. Public expenditures cover the total central budget resources and non-budget funds, such as social insurance

funds, labour fund resources and funds of autonomous territorial authorities. Since 1992 communal budgets (local level) have been operating besides the central budget in Poland. Soon budgets of autonomous territorial governments will be increased by poviats and voivodship budgets (a decentralisation reform was re-launched in 1998).

Public expenditure in Poland fetches approximately 50% of GDP. This amount is comparable to other West European countries, exclusive of the Scandinavian countries, for which the ratio stands at almost 60%. The share of public social expenditures in the five Central and Eastern European countries being candidates to the European Union (the Czech Republic, Hungary, Slovenia, Estonia) is quite similar to that in Poland.

### 1.1. Sources of Public Revenue

It is too early to evaluate the tendency in public expenditures as the transformation period saw a substantial change in the sources of budgetary revenue. Moreover, to a certain extent, fiscal regulations are modified almost every year.

*Table 1: The source of public revenue – in % of revenue*

	1994	1995	1996	1997
1. Tax- revenue of the central budget	53.3	53.1	51.2	49.7
• - Indirect taxes, including:				
VAT and turnover tax	14.3	14.7	15.9	17.4
Excise tax	8.5	8.6	8.8	8.4
• - Direct taxes	22.0	23.0	21.0	20.3
On corporate persons	6.5	6.3	6.1	6.2
On natural persons	16.5	16.7	14.9	13.1
2. Non-tax- income of the central budget	4.9	4.7	3.3	3.5
3. Taxes and charges on local budget	10.3	8.4	9.7	10.2
4. On capital	0.6	0.9	1.2	1.5
5. Revenue on social insurance	24.8	25.6	26.9	27.3
6. Revenue of para-budget funds	6.1	7.4	7.6	7.8
Total	100.0	100.0	100.0	100.0

Source: Own calculations and estimates made on the basis of data of the Ministry of Finance (Department of Statistics).

The Polish tax reform was carried out between 1992 and 1993 and since that time budgetary revenue has been indicating a growing tendency in the share of indirect taxes, mainly VAT as during the primary period of transformation enterprise-generated indirect taxes provided the core source of budgetary revenue.<sup>1</sup>

<sup>1</sup> For more details on the Polish tax reforms see Belka/Petersen (1995).

The tax reform also introduced a personal income tax (PIT), which was not enforced during the real socialism era. There was also no wage tax in Poland, because this fiscal tool was abolished in the seventies. The so-called compensation tax was only imposed on the high-income groups. Currently the personal income tax constitutes a major source of budgetary revenue. Its share has increased two-fold against corporate income tax. Although there are 100 legal tax exemptions in Poland, the number of tax relieves stands at "barely" 29. Most commonly used relieves are related to the purchase of state bonds and housing investments. These two relieves are most commonly applied by wealthy persons (90% of the highest income bracket; see Ministry of Finance 1998b).

A uniform income tax on corporate persons (the so-called CIT) was launched in 1989. Prior to its introduction Poland saw diversified taxes for the state and private sector (since 1950). In 1992 fiscal principles which have been enforced until the present day were introduced. Corporate income tax is a proportional tax with a tax rate of 36%. Farms are exempt from the tax. There are about 40 tax exemptions but few relieves. Relieves are related to employment of the unemployed in communities facing a special threat of unemployment (specified by the National Labour Office – KUP) or undertaking substantial investments in special economic zones.

Tax relieves for investors as a measure of labour market policy were firstly implemented in 1991. Initially, the utilisation rate of these relieves remained low as numerous communities were distinguished by a higher than average unemployment rate. These were also locations lacking general appeal for investors, mainly due to their poor infrastructure. In time, the relieve started to be used to a larger extent, also in communities in which high unemployment was produced by deterioration of the old industries (communities located in Walbrzych, Katowice and Łódź voivodeships). Eventually, such labour market policy encouraged communal autonomous governments to strive for an inclusion of their region in the list of communities threatened with high unemployment. The benefits they gained in return were large. On the one hand, the unemployed received benefits for a longer period of time up to 6 months, and on the other hand, communities attracted investors, although this effect produced rather selective results (see Golinowska, 1996c).

The special economic zone concept dates back to the time of social-democratic and peasant's party government, which had claimed that there was a need for increasing state intervention focused on accelerating economic growth. In October 1994 the enforcement of the act on special economic zones was introduced. The main feature of this zones is enjoying substantial

tax relieves granted as a result of undertaking major investments. Initially, six special zones were defined. Two voivodeships from the group may be classified as highly neglected ones, whereas four were dealing with industry restructuring problems. The volume of relieve is varied and depends on the investment range, e.g. an investor operating in Łódź voivodeship may be totally relieved from income tax for 10 years, provided that his investment expenditures exceed 2 million ECU (see Ministry of Economy, 1997). The relieve utilisation rate in special zones maintains at a relatively high level. Social-democratic opposition strongly supported investment relieves during the current tax debate, thus disagreeing with the Ministry of Finance which recommended to abolish all relieves and to decrease tax rates (see Ministry of Finance, 1998b).

Despite a relatively high CIT rate e.g., (18% in Hungary and 36% in Poland) efficiency of the tax is low. This is not due to the above mentioned tax relieves but to a common practise of "over-declaring operating costs" to lower taxable income. In 1997 almost 35% of corporate income tax payers declared losses (see Ministry of Finance, 1998b).

The tax reform was accompanied by decentralisation of public expenditures. Communal budgets have been established in 1992. Communal autonomous authorities obtained the right to impose local taxes and charges, although the right refers to a narrow scope of activities. The own revenue of communal units generated by local taxes and charges reaches approximately 10 percent of total state budgetary revenue, despite the fact that communal authorities were attributed with a wide scope of competencies, including the obligation to provide for primary social services, e.g. they are completely responsible for financing education. In order to accomplish their goals, communal authorities obtain grants from the central budget. Decentralisation of public social expenditure is thus not a complete process, as the right to collect taxes on the lowest level has been significantly constrained.

The social insurance contribution revenue holds the biggest share in the consolidated state budget (about 25% of the budget). The share indicates a growing tendency. Despite the fact that the contribution itself maintained a stable level for recent years, the scope of income subjected to taxation has been extended.

At the beginning of the transformation period social insurance contributions were increased to 45% of the pay roll. Still, it failed to balance the social insurance funds (FUS). The state budget continued to subsidise the social insurance system. In 1991 social insurance subsidies stood at 1.4% of GDP. In the years 1992-1994 the figure grew to over 6% of GDP. Such a ra

pid growth in the amount of subsidies encouraged an active search for funds to cover the expenditures. It was impossible to increase the contribution paid by employers. As the private sector expanded this group became increasingly aware of the contribution burdens; consequently a further increase would have produced loud protests. Such situation encouraged the introduction of a solution which increased the scope of income being the basic amount for the contribution (also income on additional work, commissioned work, bonuses etc.). Moreover, family allowances were excluded from the social insurance fund as a non-insurance benefit. The state budget started to provide family allowances. Since 1995 the amount of subsidies for FUS has gone down to 4.1% of the GDP. Further decreases of the contributions would require limitation of the funds for farmers because their contributions covers only 6% of the expenditure for farmers' old-age and disability pensions.

## 1.2. Public Expenditures

Public expenditures in Poland are mostly allocated to a relatively broad scope of operations of the welfare state. These operations are a continuation of solutions applied during the real socialism era or are enforced by the need to undertake protective actions to address new social issues (unemployment and poverty). Such a relatively broad scope of the welfare state is characteristic for other Central European transformation states. The share of public social expenditures has been estimated at over 31% of GDP.

Poland is also substantially burdened with foreign and domestic debt operating costs, which reaches 8–10% of GDP. For other items less is spent than it would be expected from a developing economy, especially with regard to investments in essential infrastructure. These expenditures are less than 8% of total expenditures of the public sector or about 4% of GDP. Expenditures allocated to public security issues are also insufficient, as they barely fetch slightly over 2% of GDP.

## 2. On the Methodology of Social Expenditures Estimation

Public social spending as a part of public expenditures are not a clearly defined category in the literature, nor in the statistical practice or in the budget law. Though each year the Ministry of Finance issues ordinances on classification of budgetary revenues and expenditures, still they do not provide a sufficient basis to define a precise criterion allowing to determine

the aggregate social expenditures, despite the fact that various authors and numerous institutions have tried to define this category and to estimate its magnitude. In Poland such attempts were made, *inter alia*, by J. Rutkowski (1991), S. Golinowska (1994, 1996a) and K. Hagemajer (1996).

This problem seems to be similar in other countries, though in some of them due to the application of traditional approaches to public finance, e.g. separating a so-called social budget (e.g. Germany), generally a social expenditure category is used to present the overall social transfers. Attempts to define social expenditures are also made in international comparative studies undertaken by various international organisations, e.g. United Nations Organisation, IMF, OECD or Eurostat.

The key to define social expenditure is the selection of an eligibility criterion used for qualifying or disqualifying some financial figures under social expenditure categories. The following criteria have been applied:

- expenditures with the purpose of income redistribution,
- public expenditures targeted to households,
- public expenditures earmarked for closely defined social goals, regardless of the source and form of financing.

Each definition leads to a different scope of social spending. The first one focuses on the redistribution process of taxes, insurance contributions and other mandatory fees with an ultimate goal of a fund being set up to perform social functions.

The second definition focuses on the subject/beneficiary of the public expenditures. It restricts the fund to the expenditures bringing direct benefits to the households. Within this framework the subsidies to enterprises, even if their production is vital to household consumption, are excluded.

The third approach sums individual state expenditure items on specific goals recognised as social. Thus, the cornerstone of this approach are state functions. Consequently this approach has been termed as functional (see IMF 1996). This type of classification was developed in the UNO statistics.

The state functions include primarily defence and public security and this classification comprises the following social functions (IMF 1996, pp 153–174):

- education (from kindergarden to institutions of higher education),



- health care (including health promotion and health subsidies),
- social security, which includes:
  - pension systems,
  - protection of the unemployed,
  - sick, rehabilitation, accident and funeral allowances,
  - family support,
  - protection of abandoned children,
  - assistance to the disabled,
  - social assistance,
- housing schemes supporting apartment maintenance, heating, water supply and municipal services,
- support for communications and transport,
- support for culture and arts development,
- support for recreation,
- support for religious life,
- support for labour market issues.

The functional classification could be termed as subject-based classification. In addition economic classification is applied, with determinants being types of state support, i.e.:

- direct cash transfers targeted at households,
- subsidies to providers of services to the population,
- direct provision of social services,
- investments in the social area,
- tax exemptions and deductions for social purposes.

The economic classification is more complex due to difficulties determining precisely tax exemptions and deductions. Nevertheless its application is particularly important with regard to the fact that it allows to evaluate various forms of social support.

Complete analysis of social expenditures requires their quantification with regard to beneficiaries. The beneficiaries are classified from demographic, socio-economic or territorial perspectives. Analyses from a demographic perspective, by age and sex, allow to evaluate state preferences in terms of meeting the needs of various generations and groups of population.

For example, the separation of expenditures to the youth and children creates an opportunity to evaluate the investment level into human capital.

Analyses from socio-economic perspectives allow to evaluate which social groups have a larger and which a smaller share in income redistribution. Such an analysis would, however, require microstatistical data (coming from family budget surveys) on tax and contribution burdens of social groups. Public expenditures studies do not allow to analyse redistributive aspects of expenditures.

In the following we present a wider analysis of expenditures from a functional perspective. The analysis of social expenditures by economic structure and by socio-economic structure of the beneficiaries require a deeper perspective, which is developed under the Commissioned Research Project (PBZ) titled "Social policy as an element of the systemic and socio-economic transformation process" by the IPiSS.

### 3. Social Public Expenditure Level in 1990–1996

The estimates of social expenditures in the transition period allows to show the trends of their absolute and relative growth. We divide the analysed 7-year transition period into two phases: the first one is characterised by a decline in GDP (1990–1992) and the second period by a GDP growth (1993–1996). During the first phase the relative growth (as share of GDP) in the social expenditures strongly increased by about 7 percentage points from 1990 to 1991 (see Table 2). The real growth of expenditures was also considerable; in 1991 they went up by 16 percentage points in real terms, while in 1992 by more than 4.

*Table 2: Public social expenditure levels*

Item	1990	1991	1992	1993	1994	1995	1996
GDP Million zlotys	56,027.1	80,882.9	114,944.2	155,780.0	210,407.3	286,025.6	362,814.2
GDP – real* growth - %	-11.6	-7.0	2.6	3.8	5.2	7.0	6.1
Social expenditures (million zlotys)	14,564.5	24,617.0	37,617.0	48,563.2	67,279.6	89,718.7	110,974.9
Social expenditures - real growth, previous* year =100		116.0	104.5	99.3	104.8	106.4	105.8
Share of social expenditures in GDP - %	25.2	32.1	32.3	31.2	32.0	31.4	31.4

\* CIP was used as a deflator.

Source: own calculations based on GUS and Ministry of Finance data.



Cash benefits							
a – million zlotys	6,357.6	14,012.0	22,824.7	30,983.9	43,346.4	57,314.2	67,722.3
b – % GDP	11.3	17.3	19.8	19.9	20.6	20.0	18.7
c – % in total expenditures	43.6	56.9	61.5	63.8	65.6	65.3	59.5
Expenditures on social services in kind							
a – million zlotys	6,964.1	9,062.6	13,163.5	17,207.3	22,953.8	31,288.8	46,085.3
b – % GDP	12.4	11.2	11.4	11.0	10.9	10.9	12.7
c – % in total expenditures	47.8	36.8	35.5	35.4	34.7	35.6	40.5
Price subsidies							
a – million zlotys	1,029.3	1,507.3	1,312.3	1,018.8	998.6	979.6	1,218.8
c – % in total expenditures	7.1	5.8	3.3	1.9		1.1	1.1
Other:							
Active labour market policy measures							
a – million zlotys	118.7	94.5	107.5	354.5	569.0	755.0	806.1
c – % in total expenditures	0.2	0.4	0.3	0.2	0.8	0.8	0.7

Source: own calculations and estimates based on GUS, Ministry of Finance, ZUS and MPiPS data.

The rise in cash benefits was primarily a response to such fundamental changes in the economic system as price liberalisation and abolishing the policy of full employment. However, the changes in the structure turned out to be deeper. Parallel to the level of expenditures on social services to the wages in the area of social services (teachers, doctors, nurses, culture activists etc.) drastically declined and substantial cuts in investment outlays and funds for the operations of social infrastructure occurred.

During the economic recovery period, 1994–1996 in particular, the share of social service expenditures in the GDP was no longer declining. But the stabilisation was not connected with desired systemic reforms in any of the social service areas.

Table 4 presents changes in the cash benefit structure and Table 5 the respective changes in the structure of transfers in-kind, a dominant part being social services.

In 1990–1996 the dominant and growing items among the cash benefits were expenditures on disability and old-age pensions (see Table 4). The growing cash benefits also include other insurance benefits as well as unemployment benefits and social assistance allowances. Other cash benefits were characterised by a declining trend. First and foremost the share of family benefits drastically declined (more than twofold) as well as spending on scholarships that in fact ceased to play any social role.

Table 4: Structure and growth rate of cash benefits in 1990–1996

Type of benefit	1990	1991	1992	1993	1994	1995	1996
a – Total cash benefits (%)		100.0	100.0	100.0	100.0	100.0	100.0
b – % GDP	100.	17.3	19.8	19.9	20.6	20.0	18.7
c – real growth; previous year = 100	0 11.3	128.9	112.6	103.4	106.1	102.5	98.0
Disability old-age and family pensions	.						
a – percentage index	76.5	75.0	75.0	77.2	78.8	80.5	81.2
b – % GDP	8.6	12.6	14.6	14.2	15.8	15.6	15.2
c – real growth; previous year = 100	90.8	124.8	115.3	102.1	108.4	105.2	102.5
Family benefits							
a – percentage index	15.5	14.7	12.5	10.3	8.6	6.5	6.8
b – % GDP	1.8	2.5	2.4	2.0	1.7	1.3	1.3
c – real growth; previous year = 100	.	115.2	95.6	84.9	88.4	77.6	106.2
Labour Fund unemployment benefits							
a – percentage index	2.1	5.9	6.8	6.1	6.1	6.6	2.5
b – % GDP	0.3	1.4	1.7	1.7	1.8	1.9	1.8
c – real growth; previous year = 100	.	361.6	130.7	92.2	105.7	111.2	99.7
Social assistance benefits							
a – percentage index	1.3	1.4	1.5	2.5	2.0	2.1	2.5
b – % GDP	0.1	0.2	0.3	0.5	0.4	0.4	0.5
c – real growth; previous year = 100	.	135.2	120.7	176.6	84.0	107.9	109.8
Scholarships							
a – percentage index	1.3	0.1	0.06	0.05	0.05	0.05	0.05

Source: own estimates and calculations based on GUS, ZUS and MPiPS data.

Table 5: Structure and growth rate of transfers in-kind

Expenditures on transfers in-kind	1990	1991	1992	1993	1994	1995	1996
a – Total expenditures in kind (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
b – % GDP	12.4	11.2	11.4	11.0	10.9	10.9	12.7
c – real growth; previous year = 100	.	78.9	101.4	99.0	101.0	105.2	122.8
Health care							
a – percentage index	40.4	44.3	44.2	42.5	42.6	43.0	40.8
b – % GDP	5.0	5.2	5.3	4.7	4.7	4.7	5.2
Education (including higher education)							
a – percentage index	45.3	46.3	47.0	48.6	48.3	47.7	43.6
b – % GDP	5.0	5.2	5.3	5.4	5.6	5.5	5.9
Social assistance – services in kind and social assistance homes							
a – percentage index	9.5	3.1	3.4	3.5	2.9	3.1	3.1
b – % GDP	1.2	0.4	0.4	0.4	0.5	0.4	0.4
Culture and arts							
a – percentage index	4.9	4.5	4.1	4.1	3.9	3.9	3.7
b – % GDP	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Recreation							
a – percentage index	5.0	2.9	1.1	1.2	1.2	1.3	1.5
b – % GDP	0.4	0.2	0.1	0.1	0.1	0.2	0.2

Source: own estimates and calculations based on GUS and MPiPS data.

Among the transfers in-kind two expenditure categories are predominant: health care and education expenditures. Typically the figures in these two expenditure categories were very close. The situation changed, however, in the transition period. This is mainly true for the se

cond transition period of economic recovery. While education expenditure at least temporally grew, health care expenditure declined in particular since 1991. A further deterioration of the public health services was recorded and medical services were being subjected to market forces. Consequently, several strikes in the health sector were organised which led to a feeling of social threat in this particular field of human needs. Other types of social services were treated much worse. The state's share in financing physical and cultural education fell sharply. Support for social assistance homes, child homes and other facilities providing life-related services for the most needy people were considerably reduced.

Social service areas not covered by public funds were taken over by service providers operating on a free market basis. This happened, however, without preceding reforms defining the social functions of the state and a socially acceptable market environment. The basic legal framework was neither created for this area by constitutional provisions, since in the period under consideration a new constitution was still subject to an intense political debate and legislative work rather than to political solutions.

The area of social services was at the mercy of top-down and bottom-up ideas as well as to non-co-ordinated external assistance, which left an impression of chaos. Many initiatives of that period should be viewed as excellent and treated as a direction in which the development of social services should proceed. Such initiatives include mainly activities of a teachers' and parents' association within the STO (the Community Education Association) which contributed to development of upgraded non-profit private education (UNDP/CASE 1998) as well as numerous self-assistance organisations incorporated by parents which focus on development of care and education for the disabled children.

However, there are more examples that raise fundamental doubts as to leaving educational and health matters to its own course. The onceunthinkable strikes of teachers and employees of the health sector reinforce the concern about meeting social needs in these two fundamental areas.

## **5. Structure of Public Social Expenditures by Functions**

The trends in the public social expenditures emerging in the transition period from a functional perspective show an disturbing disharmony (see Table 6). This is the case since the structure is more and more dominated by social security cash benefits at the expense of expenditures on investment into human capital (family policy, education and culture).

Table 6 indicates that the tendency changed in 1996. The change remained visible in the years 1996-1998. The ratio of Expenditure on social insurance to total social expenditure has increased dramatically. At the beginning of the transformation period it accounted for one-third of all public expenditure, whereas the current figure stands at 50%. The situation has remained stable since 1996 and social insurance expenditure against GDP have ceased to grow. Such situation is mainly due to changes in the indexation principles applied to old-age and disability pensions. Wage indexation was replaced by mixed indexation (price indexation plus 50% of the increase in real wages).

There is a visible increase in expenditures covered from the Labour Fund which collects a contribution being 3% of the pay roll from employers plus state subsidies, despite the fact the unemployment in the years 1996-1998 showed a declining tendency. Such situation has encouraged the introduction of pre-pension benefits for older unemployed people<sup>2</sup> and the expansion of a range of active labour market programmes. The share of active programmes is nevertheless low. ALMP account for less than 20% of Labour Fund expenditures.

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<sup>2</sup> The pre-pension benefits (52% of the average wage) are substantially higher than the unemployment benefit (36% of the average wage).

*Table 6: Structure of public (central and local government) social expenditures in Poland in 1990–1996*

Item	1990	1991	1992	1993	1994	1995	1996
<b>Social expenditures</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Pension system							
a – million zlotys	4,791.8	10,182.5	16,783.8	23,194.1	33,229.8	44,368.6	54,975.2
b – share in social expenditures - %	32.9	39.2	45.2	47.8	40.4	49.5	48.5
c – % GDP	8.6	12.6	14.6	14.9	15.8	15.5	15.2
Family benefits							
a – million zlotys	1,030.6	1,995.9	2,767.3	3,093.1	3,721.6	4,030.7	4,597.0
b – share in social expenditures - %	7.1	8.1	7.4	6.3	5.5	4.6	4.0
c – % GDP	1.8	2.5	2.4	2.0	1.7	1.4	1.3
Education (including higher education)							
a – million zlotys	3,152.0	4,195.1	6,189.8	8,367.6	11,823.2	15,912.0	21,317.0
b – share in social expenditures - %	21.6	16.2	16.7	15.9	17.6	17.7	18.7
c – % GDP	5.6	5.2	5.3	5.3	5.6	5.5	5.9
Health care							
a – million zlotys	2,812.6	4,018.9	5,821.4	7,308.3	10,171.0	13,977.0	18,802.0
b – share in social expenditures - %	19.3	16.3	15.7	15.0	14.8	15.6	16.5
c – % GDP	5.0	5.2	5.1	4.7	4.8	4.8	5.2
Labour Fund expenditures							
a – million zlotys	370.2	1,358.4	2,467.6	3,190.3	4,346.3	6,328.2	7,525.3
b – share in social expenditures - %	3.8	5.2	6.6	6.6	6.6	7.2	6.8
c – % GDP	0.7	1.7	2.1	2.0	2.1	2.2	2.5
Social assistance							
a – million zlotys	824.6	603.4	1,069.9	1,456.1	1,655.1	2,308.5	3,040.5
b – share in social expenditures - %	5.7	2.4	2.9	3.0	2.5	2.6	2.7
c – % GDP	1.5	0.7	0.9	0.9	0.8	0.8	0.8
Culture and recreation							
a – million zlotys	553.4	576.6	703.9	934.9	1,334.0	1,814.1	2,331.8
b – share in social expenditures - %	3.8	2.3	1.9	1.9	1.9	2.1	2.1
c – % GDP	1.0	0.7	0.6	0.6	0.6	0.6	0.6
price subsidies*							
a – million zlotys	1,029.3	1,507.3	1,312.3	1,018.8	998.6	979.6	1,218.8
b – share in social expenditures - %	7.1	5.8	3.3	1.9	1.3	1.1	1.1
c – % GDP	1.8	1.9	1.1	0.6	0.5	0.3	0.3

\* The prices of the following goods are subsidised: food, coal, public transport, apartment maintenance, car prepayments.

Source: own estimates and calculations based on GUS, Ministry of Finance, ZUS, KRUS and MPiPS data.

A decrease in expenditure allocated to social assistance in 1991 and its constant low share despite growing poverty in Poland is an interesting feature of the structure of social expenditure which drew attention of World Bank experts (see World Bank 1994 and 1995, GUS and Golonowska 1996, 1998). The main reason of the decline was limited funding of social assistance residential homes for the chronically ill, disabled and single people. Expenditures for social assistance have been increasing since 1996. The rise was stimulated by the introduction of a so-called social pension for persons disabled from birth, the sole social assistance category which is independent from the family income test. Moreover, long-term unemployed who are not entitled to the unemployment benefit have become a vast group of social assistance recipients. The unemployment compensations are currently (1998) received by about 30% of the unemployed, whereas the figure for 1995 stood at 50%.



The structure of social expenditure may be subject to major changes in 1999. In this year substantial social reforms will be introduced: a further decentralisation of the state, the old-age pension reform, the health care and education reforms. This will probably produce a relative increase in the expenditure on health care and education.

### 5.1. Price Subsidies

This category of expenditure was highly important during the real socialism era. Poland began to abolish this measure already in the eighties (see Golinowska, 1988). Therefore, at the beginning of the transformation period compared to other countries in transition the share of price subsidies in GDP was relatively low.

In a socialist state subsidised prices of many consumption goods and services, which used to be attributed with special social purposes, were perhaps the most important social policy tool. The tool dealt with subsidising producers, that is state owned enterprises, which fixed prices often below production costs. The policy implying subsidising prices of state producers was not only driven by social criteria but also to promote selected goods (merit goods), such as books, hygienic products or children's sports equipment. The policy deformed the consumption structure and distorted the efficiency of the production process. Consumers paid little for goods which require high social expenditures, and a lot of money for goods manufactured at low production cost but burdened with high excise taxes.

At the beginning of 1980s, when talks about the "genuine" economic reform were launched and first reform steps were recommended, the price reform (the Act on Prices, 1982) liberated the system to a certain extent and limited the scope of the so-called official prices (fixed by the government). Price subsidies were subject to a systematic decrease. As a result Poland started the transformation period with a relatively low (compared to other countries excluding Hungary) share of subsidies in GDP, which stood at 1.8%. Wide-spanned price liberalisation was launched in 1989 by the communist authorities. The decision related to food products and was accompanied by the abolishment of meat coupons. During the decade of 80s existed food coupons for different consumption goods in Poland.

A huge change occurred in 1990. Each year, the real value of subsidies went down by 20% to 40% until it reached 0.3% GDP (see Table 7). In the years 1996–1997 cuts in subsidies were stopped, but still some subsidies remained at a low level. Naturally, this does not mean that the state fails to subsidise certain producers just as it used to be. Attempts to abolish such

practices failed to succeed. Interested trade unions and special parliamentary initiatives, often emerging as a result of conflicts with the government, put up protests. Subsidies include subventions which are consequences of decisions made during the last decade, for instance subsidies to car prices for persons who made advance payments in order to purchase a car in the distant future. A similar case occurs with subsidising flats for persons who held housing saving books and are saving for a co-operative apartment to secure against high inflation in Poland and the consequences of the liberalisation of real estate markets.

As far as housing is concerned, the government keeps on subsidising housing co-operatives to maintain existing apartments and prevent an excessive rise in the rents. At the same time public expenditures on new housing construction are low which contributes to an ongoing housing crisis. Luxury private housing construction is flourishing (see Kulesza 1998) and is supported by the state in form of significant tax relieves. In 1997 tax relieves on housing construction amounted to 4443 million zlotys (see Ministry of Finance 1998b). Subsidies to milk bars and several other goods (specified by official indexes) have an old tradition and an army of advocates. Such subsidies are not a major burden for the state budget, yet they perform the role of a social symbol.

The government built by social democrats and members of the peasant's party established a new type of subsidies – subventions for entities with no payable ZUS (social insurance institutions), which means that the state began to subsidise social insurance premiums. The group included large state-owned enterprises, for instance coal mines, and organisations providing social services like schools and hospitals. Generally speaking, subsidised prices do not reflect a clear social target. On one hand, they mirror the past, and on the other, they are a result of pressures by subsidised producers who want to maintain their status quo. Also current conflicts between economic entities and some public expenditures play an important role.

Table 7: Price subsidies

	1990	1991	1992	1993	1994	1995	1996
Subsidies:							
a – million zlotys	1029.3	1507.3	1312.3	1018.8	998.6	979.6	1218.8
b – growth in real terms	-	86.0	60.9	57.4	74.1	76.8	103.8
c – % of GDP	1.8	1.9	1.1	0.6	0.5	0.3	0.3
to:							
• foods		3.8	3.1	4.1	5.8	8.7	11.2
• coal		500.7	75.1	-	-	-	-
• cars		96.5	26.5	0.2	19.9	28.6	28.4
• transport and communication (buses and trains)		290.8	370.0	481.0	503.3	496.6	735.0
• cooperative flats maintainance		615.5	837.6	533.5	496.6	445.7	444.2
• social insurance contribution	-	-	-	-	-	788.2	249.2

Source: own estimates based on Ministry of Finance and ZUS data

## 5.2. Expenditures on the Pension System

The major reason for the growth of social expenditures in the transition period are expenditures on pension benefits. In 1994 to 1996 they accounted for almost half of the total social expenditures, while in 1990 only to about one third. The first strong increase of this expenditure category was recorded in 1991, when their share in GDP went up by 4 percentage points within one year (see Table 6). Then a considerable growth of the share in GDP occurred in 1994 caused by the increase of minimum disability and old-age pensions. Taking into consideration that pension benefits have been taxed with personal income tax since 1992, in net terms no rise in the share of pension expenditures in GDP would have been recorded in 1992. The two percentage point increase in 1992 quoted in Table 8 applied to gross figures (before tax). Within the 7-year-period under exploration the expenditures on pensions went up to a level which GDP share index is one of the highest in the world (like in Greece, Italy and Spain; see Golinowska, 1996a).

The growth of expenditures for the pension system also occurred because of increasing benefits for employee and farmers in particular. The pension system for farmers (KRUS) is subsidized by more than 90% of its expenditure. In addition the farmers income as well as pension benefits are not included into the personal income tax base.

The number of disability pensions and related expenditure is not very high in Poland. In 1996 the principles for awarding the disability status were modified. The act has also increased the individual liability for the disability statement and medical supervision of the physician who issues the certificate. In the years 1997-1998 these regulations have encouraged a slight

declining tendency against the newly awarded disability pensions by increasing the need for pre-pension rehabilitation. It is difficult to evaluate whether the tendency will remain constant. It is possible that the old-age pension reform will encourage selected employees groups to apply for disability pension.

*Table 8: Expenditures on pension system in 1990–1996*

Item	1990	1991	1992	1993	1994	1995	1996
Cash benefits							
a – million zlotys	6,357.6	14,012.0	22,824.7	30,983.9	43,346.4	57,314.2	67,722.3
b – % GDP	11.3	17.3	19.8	19.9	20.6	20.0	18.7
Old-age and disability and family pensions – total							
a – million zlotys	4,791.8	10,182.5	16,783.8	23,194.2	33,229.8	44,746.3	54,975.2
b – % GDP	8.6	12.6	14.6	14.2	15.8	15.6	15.2
c – real growth	90.8	124.8	115.3	102.1	108.4	105.2	102.5
Pensions in employee scheme							
a – million zlotys	–	–	14,169.2	19,513.7	27,702.4	37,395.4	46,075.4
b – % GDP	7.0	10.5	13.3	12.5	13.2	13.1	12.7
Pensions in peasant scheme							
a – million zlotys	863.8	1,708.2	2,614.6	3,680.4	5,527.4	7,350.9	8,899.8
b – % GDP	1.5	2.1	2.3	2.4	2.6	2.6	2.5
Old-age pensions							
a – million zlotys	2,494.5	5,643.0	9,297.9	12,816.6	18,242.2	24,481.6	30,150.9
b – % GDP	4.4	7.0	8.0	8.2	8.7	8.6	8.5
c – real growth	95.3	132.8	115.2	108.9	107.7	105.1	102.7
Disability pensions							
a – million zlotys	1,632.6	3,244.1	5,237.3	7,236.9	10,435.0	14,070.1	17,195.1
b – % GDP	2.9	4.0	4.6	4.6	4.9	4.9	4.7
c – real growth	88.4	116.7	112.9	103.1	109.1	105.6	101.9
Family pensions							
a – million zlotys	635.9	1,258.5	2,205.7	3,061.5	4,452.0	6,075.6	7,629.2
b – % GDP	1.1	1.6	1.9	2.0	2.1	2.1	2.1
c – real growth	4.6	116.2	122.6	102.6	110.0	106.9	104.7

Source: own estimates and calculations based on GUS, ZUS and KRUS data.

What are the goals of the old-age pension reform? The pension system will become more equivalent since 1999. In both obligatory pillars (pay-as-you-go and funded) the benefit will depend on the volume of accumulated contributions. Additionally, the amount of the benefit obtained from the first pillar will depend on indexation principles, and in the second pillar on the return from the invested funds. Individuals who enjoy a high and consolidated labour market status will gain better prospects for a sufficient pension. Persons with low income and interruptions in their work career have much poorer prospects. It might happen that the disability pension system will provide them better benefits than old-age pensions.

Introduction of the funded pillar beside the current pay-as-you-go pension system will produce shortages in the FUS budget. In line with the provisions of the act deficits will be covered with funds generated by privatisation of state property. Still public expenditures on pensions may increase if privatisation processes are not dynamic enough and fail to generate sufficient funds. During the first stage of the implementation old-age-pension reform we expect increased tensions in public expenditure.

### 5.3. Family Benefits

Family benefits are not a separate item in the public expenditure statistics. Additionally, due to the changes of revenue sources, the major item of these benefits (i.e. family allowances) has been categorised under social assistance instead of social insurance since March 1995. When calculating aggregate family benefits' value, one has to identify individual types of family benefits and to sum them up. Family benefits were recognised to be:

- family allowances,
- nursing allowances (for disabled children),
- child-care allowances (for taking care of a sick child),
- child allowances,
- birth allowances,
- allowances for pregnant women,
- child alimony.

The analysis of state expenditures on family benefits in 1990 to 1996 shows their constant decline. At present family benefits account for slightly above 1% GDP, while the drop of the real value of these benefits is exceptionally high. In 1995 the real value of expenditures on family benefits declined by almost 25% (see Table 9).

Table 9: Public expenditures on family benefits 1990–1996

Family benefits	1990	1991	1992	1993	1994	1995	1996
Total							
a – million zlotys	1,030.8	1,995.9	2,767.3	3,093.1	3,613.0	3,607.8	4,597.0
b – % GDP	1.8	2.5	2.4	1.7	1.7	1.3	1.3
c – real growth, previous year = 100	-	115.2	95.6	84.0	88.4	77.6	106.2
Birth allowance (million zlotys)	4.5	15.0	21.9	31.3	41.5	56.1	91.2
employee	4.0	7.3	11.2	14.5	17.6	27.2	58.1
farmers'	0.5	7.7	10.7	16.8	23.9	28.9	33.1
Maternity allowance (million zlotys)	70.8	125.0	185.8	254.9	314.2	383.2	477.1
employee	65.2	118.7	180.4	249.4	308.1	376.4	469.8
farmers'	5.6	6.3	5.4	5.5	6.1	6.8	7.3
Family and nursing allowances (million zlotys)	853.7	1,553.0	2,127.7	2,127.7	2,253.8	2,153.3	2,902.2
Child-care allowances (million zlotys)	37.1	73.5	95.1	136.8	176.0	168.0	176.4
Child allowances (million zlotys)	60.7	186.0	235.8	282.8	316.4	374.0	433.3
For pregnant women and persons raising children (million zlotys)	-	-	-	-	257.9	126.5	74.1
Child support (million zlotys)	4.0	39.4	92.0	169.6	253.2	346.7	442.7
Help for children from foster families (million zlotys)	-	19.6	31.9	54.5	108.6	9,974.7	12,112.1

Source: own estimates and calculations based on GUS, ZUS and MPiPS data.

## 5.4. Education Expenditures

Expenditures on education belong to the expenditure category, which during the first phase of transition period declined more than gross domestic product. While total social spending was protected, which allowed for their real growth, the real value of education expenditures was subject to a drastical decline of almost 25% (see Table 10) in 1990–1991. In the following 1992–1994 period the expenditures stabilised on a lower level with a slight growing trend in real terms. Only since 1995 a certain improvement occurred.

Visible changes in the education expenditures structure were also recorded. It is hard to view them positively. The share of expenditures on basic vocational training increased. The share of expenditures on comprehensive secondary education also rose, but less than that of vocational training. However, the share of expenditures on higher education went down by almost 7 percent in the period when the number of students doubled, whereas non public academia, despite their extremely dynamic growth, provided education to only 15% of the total student population. The consequences, deteriorating quality and conditions of education in particular, are subject to more and more acute social criticism.

Table 10: Public expenditures on education

Item	1990	1991	1992	1993	1994	1995	1996
Total education							
a – million zlotys	3,152.0	4,195.1	6,189.8	8,367.6	11,823.2	15,912.0	21,317.0
b – % GDP	5.6	5.2	5.3	5.3	5.6	5.5	5.9
c – total = 100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
d – real growth; previous year = 100	94.6	79.2	103.0	101.8	100.2	104.8	112.4
State budget							
a – million zlotys	–	3,477.8	4,980.5	6,444.4	9,317.8	12,484.5	15,215.9
b – % GDP	–	4.3	4.3	4.1	4.4	4.4	4.2
c – % of total education expenditures	–	82.9	80.5	77.0	84.1	83.6	75.6
Gmina budget (local)							
a – million zlotys	–	717.3	1,263.4	1,923.2	1,761.4	2,454.4	4,363.4
b – % GDP	–	0.9	1.0	1.2	1.8	2.2	1.2
c – % of total education expenditures	–	17.1	20.2	23.0	29.0	29.5	21.7
Primary education							
a – million zlotys	930.0	1,579.7	2,416.2	3,338.5	4,203.1	5,924.7	8,422.4
b – % GDP	1.7	1.9	2.1	2.2	2.1	2.1	2.3
c – % of total education expenditures	29.5	37.6	39.0	40.5	37.9	39.6	41.8
d – real growth basic	82.7	99.7	106.9	103.6	93.8	110.4	118.6
Vocational training							
a – million zlotys	333.0	465.3	758.3	1,081.3	1,601.0	2,003.0	2,488.6
b – % GDP	0.6	0.6	0.6	0.7	0.7	0.7	0.7
c – % of total education expenditures	10.6	11.1	12.1	12.9	14.4	13.4	12.4
d – real growth	94.5	82.1	114.0	105.4	112.0	97.8	103.8
Comprehensive secondary education*							
a – million zlotys	.	205.8	341.1	501.3	804.8	1,025.2	1,253.7
b – % GDP	.	0.2	0.2	0.3	0.3	0.3	0.3
c – % of total education expenditures	.	4.9	5.5	6.0	7.2	5.7	6.2
d – real growth	93.8	82.0	108.6	121.4	99.7	102.0	102.0
Higher education							
a – million zlotys	666.7	665.0	1,011.0	1,269.6	1,626.4	2,174.7	3,002.4
b – % GDP	1.2	0.8	0.9	0.8	0.8	0.7	0.8
c – % of total education expenditures	21.2	15.8	16.3	15.2	14.7	14.6	14.9
d – real growth	107.2	58.6	106.3	92.8	96.9	104.7	115.2
Scholarships							
a – million zlotys	79.3	17.1	13.8	16.8	22.1	28.0	35.8
c – % of total education expenditures	2.5	0.4	0.2	0.2	0.2	0.2	0.2

\* together with special education (for disabled children)

Source: own estimates and calculations based on GUS data.

A methodological word of comment must be made on the evaluation of the structure of expenditures with regard to state and gminas (local) budgets. The predominant part of educational expenditures financed from gminas budgets is covered with an earmarked subsidy or so called educational subvention (introduced in 1994) from the state budget. Is it possible then to recognise that gminas expenditures on education are indeed financed by the gminas'? If earmarked subsidies and educational subventions from the state budget were deducted from gmi

nas total educational expenditures then it would turn out that the share of gminas in financing education did not increase, even slightly decline.<sup>3</sup>

From January 1, 1996 onwards the support of all primary schools was transferred to the gmina level. Primary schools are now treated as a local task. However, may the money transfers from the State budget for primary education be treated as gminas expenditures on education? Table 10 presents the educational subventions and earmarked subsidies from the state budget as state budget expenditures. Because of this reason the funds provided by gminas still covers about 20% of the education expenditure. An argument for applying such an approach is the fact that the decision on the level of earmarked subsidy and educational subvention was made on the central level. An additional argument supporting this claim is that funds were raised on a central rather than on a local level. In addition a certain general trend in the gminas expenditures patterns should be noted. If specific gminas expenditure items are covered by the state budget, then municipalities reduce their financing.

The social dimension of public expenditures on education is portrayed by the share of scholarship funds. The reduction of this expenditure item is so huge that scholarships are becoming a vanishing form of state support, which in the growing income gap environment will lead to growing unequal educational opportunities.

It is very hard to solve the problem of restructuring secondary education, which is reflected in the structure of educational expenditures. Expenditures on various basic vocational schools continue to be financed primarily from the state budget. As late as in 1994 the state share declined. Additionally, outlays on vocational training, after a drop in 1990–1991, which was still smaller than total educational expenditure, were growing in real terms until 1995. In the three subsequent years, i.e. in 1992–1994, the accrued growth of real outlays on vocational schooling amounted to 135%. There is no evidence to conclude that the rise of outlays comprised expenditures on the reform of vocational training, the absence of which makes the situation of vocational school graduates difficult in terms of being more elastic and more market-oriented when entering labour market.

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<sup>3</sup> It should be noted that figures of the GUS in its 1995, 1996 Annual Yearbooks concerning the state and local (gminas) budgets expenditures include transfers of state budget funds (see Baran, 1996a, 1996b). As a result when state budget and local (gminas) budget expenditures on education are added, then we clearly deal with the case of double counting of earmarked subsidy and educational subvention, which artificially increases total educational expenditures. Therefore, in two earlier publications (see Golinowska, 1994 and 1996a) educational expenditures in 1994–1995, expressed as share in GDP, are almost 1 percent higher than the actual expenditures.



The level of funds paid for the education system do not reflect the difficult problems of education and training in Poland. However, even the results of the analysis of the public finance in this area should be treated as a kind of warning. Investments into human capital as one of state's strategic roles has not yet affected the structure of public finance.

## 5.5. Health Care Expenditures

Expenditures on health care during the first phase of transition period, i.e. in 1990–1991, declined in real terms by almost 20% (see table 11). The decline outpaced the decline of national income in the same period. In the two subsequent years 1992–1993 the situation did not improve. Only in 1995–1996 public expenditures on health care increased in real terms by more than 10% per year.

*Table 11: Health care expenditures in 1990–1996*

Item	1990	1991	1992	1993	1994	1995	1996
Total health care expenditures							
a – million zlotys	2,812.6	4,018.9	5,821.4	7,308.3	10,204.0*	14,024.0*	18,802.0*
b – % GDP	5.0	5.0	5.1	4.7	4.8	4.8	5.2
c – real growth; previous year = 100	78.1	85.0	102.4	95.4	101.3	110.4	112.3
Outpatient clinics							
a – million zlotys	.	761.9	1,176.6	1,528.4	2,332.2	3,083.1	3,401.1
b – % share in total	.	18.9	20.2	20.9	22.8	22.0	18.1
Hospitals							
a – million zlotys	.	1,950.4	2,807.1	3,651.8	5,107.5	6,681.6	8,381.9
b – % share in total	.	48.5	48.2	50.0	50.0	47.6	44.6
Drug subsidies							
a – million zlotys	336.6	561.4	721.9	823.0	1,154.0	2,042.3	1,484.1
b – % share in total	12.0	14.0	12.4	11.3	11.3	14.6	7.9
Emergency service							
a - million zlotys	.	101.5	164.2	212.6	282.0	377.3	450.4

\* date from consolidated budget account (Ministry of Finance, 1997)

Source: own calculations based upon GUS and MF data.

The decline of public expenditures on health care caused in the beginning of the transition period widespread ad hoc commercialisation of medical services. The structure of expenditures on health care has not evolved in a clearly defined direction. Only the share of expenditures on pharmacie subsidies in total expenditures shows a slightly declining trend. The major item in the health care expenditure are expenditures on hospitals. They account for almost half of the total health care expenditures. It is a large figure which is higher than in many Western countries, where hospital treatment amounts to approximately one third of total public spending on health care.

Health care expenditures from gminas budgets are marginal, provided that these exclude earmarked subsidies from the state budget (see relevant commentary on gminas education expenditures above). If, however, the targeting subsidies from the state budget for health care were included in the gminas health care expenditures then the financing from the gminas would amount to 10% of the total health care expenditures in 1995, which is almost four times higher than what is financed by gminas genuine funds.

In total the decline of real public spending on health care and the preservation of its existing structure is due to systemic backwardness in this area that persisted for the whole 5-year-period (until 1994) of transition in Poland. In the years 1996-1998 health care expenditure were increased due to on-going strikes of doctors, nurses and other health care workers. In 1997 a health care reform act was passed, but two years of *vacatio legis* was announced. Since January 1999 the amount of health care expenditure will be developed in line with brand-new principles. The reformers intend to limit public expenditure by constraining guaranteed benefits and substantial improvement and supervision of management of funds allocated to health care institutions. Doctors did not intend to become subjected to such supervision, and started to fight for a wage increase funded from public budgets. The fight is not over yet. Doctors achieved their goal as they introduced fees for services. Therefore, we should expect a substantial increase in health care expenditures, similar to that in the Czech Republic after implementation of health care reform in 1993.

## 5.6. Social Assistance Expenditures

Prior to the analysis of the social assistance expenditures a comment on methodology is required. Despite the Act on Social Assistance and inclusion of social assistance into the Ministry of Labour and Social Policy expenditures on social assistance are statistically hard to identify. First, this expenditure category has not been separated. It is still a part of expenditures of the health protection and social care section along with the Labour Fund expenditures. Secondly and quite surprisingly from a methodological point of view is the way the figures are presented. Labour Fund expenditures figures, for instance, include the amount of state subsidy rather than the total amount spent. Contributions to the Labour Fund are not treated here as a tax, notwithstanding the fact that it really is a tax (a kind of earmarked tax). It should be noted that pension expenditures are quoted as fully covered by contributions rather than coming a part from state subsidy. If so, why should the Labour Fund be treated differently?

Third, the scope of the health protection and social care section items is frequently altered. For instance, in 1995 family allowances were separated from social insurance benefits and incorporated into social assistance benefits without a single word of comment in the Statistical Yearbook of 1996. Thus looking only at figures included in the yearbook one might come to the conclusion that in 1995 the social assistance expenditures went up almost twofold in nominal terms, whereas in reality they rose much less (see Table 12).

*Table 12: Social assistance benefits in 1990–1995*

Item	1990	1991	1992	1993	1994	1995	1996
Social assistance							
a – million zlotys	824.6	603.4	1,069.9	1,456.1	1655.1	2,308.5	3,040.5
b – % GDP	1.5	0.7	0.9	0.9	0.8	0.8	0.8
c – real growth; previous year = 100	.	43.5	127.2	103.4	88.3	108.4	109.8
Permanent allowances with bonis							
a – million zlotys	35.2	65.7	95.9	151.6	235.3	330.7	349.4
c – real growth	–	109.3	220.5	116.8	117.3	110.1	88.1
Temporary allowances							
a – million zlotys	10.6	53.4	129.4	426.9	351.8	550.7	723.8
c – real growth	–	292.5	169.5	243.8	62.3	122.6	109.6
Government programs (million zlotys)							
a – housing allowances	31.0	78.7	200.1	0.7	0.8	0.9	71.6
a – drug allowances	31.0	78.7	200.0	–	–	–	–
a – meal for children	–	–	0.1	0.7	0.8	0.9	3.9
a – million zlotys	–	–	–	–	–	–	67.7
Targeting benefits							
a – million zlotys	35.3	75.1	109.1	187.2	190.0	197.4	386.7
c – real growth	–	124.9	101.6	126.8	76.7	81.4	163.4
Nursing services							
a – million zlotys	1.2	45.5	62.2	79.8	97.8	122.4	163.4
Financial support in getting economically independent							
a – million zlotys	–	16.8	12.7	2.4	1.2	0.6	0.9
Social care homes							
a – million zlotys	705.2	254.2	411.9	550.4	704.5	1,018.9	1,178.3
c – real growth	–	21.2	113.3	98.8	96.8	81.4	163.4
Expenditures of War Veterans Fund							
a – million zlotys	46.1	14.0	48.7	57.1	73.7	86.9	91.6

Source: own calculations based upon GUS and MPiPS data.

By the analysis of the individual items of the social assistance and summing up the public expenditures for each of the items a category of aggregate social assistance benefits presented in Table 12 was created. This category demonstrates that social benefits in the transition period did not grow, notwithstanding the pauperisation and poverty growth in the first years of the transition period. On the contrary, in the year of the most acute slump the benefits fell by more than half in real terms. The underlying reason was the plunge of outlays for social assistance homes. Though an increase of cash benefits such as permanent, temporary and targeting allowances was recorded, the increase was much lower than the drop of outlays on social as

sistance homes. It can also be noticed that social assistance homes in Poland are the place for persons living in absolutely most severe conditions, often without families.

The second major social assistance expenditure item, next to the support of social assistance homes are currently temporary allowances (on average 25% of total expenditures) granted on the income testing principle. Decision about the allowances for the recipients are made by social workers after they have investigated the single case. The same principle is applied for targeting allowances and nursing services. Thus the sums of cash transferred to the beneficiaries through this channel depend on the decisions of the social workers. Their work is a key factor of the social effectiveness of the assistance scheme. In the transition period additional a few government assistance programmes were launched, however their small scale and variability have not won wider recognition.

### 5.7. Labour Fund Expenditures

Labour Fund expenditures have been a permanent item on the public expenditures list for a couple of years now. The Fund raises approximately 65% of its revenue through state subsidies. The remaining part is raised through contributions paid together with social security contributions (for pensions).<sup>4</sup> The strongly increasing unemployment during the first phase of transition period has caused higher expenditures unemployment benefits and the implementation of labour market policies, as well as to a smaller extent an active labour policy (ALMP). The major growth of the outlays of the Labour Fund occurred in 1991–1992. Then the expenditure level stabilised with minor variations mainly caused by the change in the unemployment benefit due to setting a relative index (36%) referring to the average wage. This kind of formula is an effective mean of expenditure control, provided that wages are stable or show moderate growth. Meanwhile in 1995–1996 real wages were growing dynamically (4% on average per year). Consequently, despite the decline of unemployment in that period, the Labour Fund expenditures went up almost twenty percent in real terms. In 1996 the growth total in benefits exceeded the planned budget figures and the minister of labour had to increase the state subsidy to meet Labour Fund requirements (825 million zlotys). Due to the new Act on Employment and Combating Unemployment (December 1996) the rules of benefits' assessment changed significantly.

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<sup>4</sup> The social security contribution amounts to 45% while the Labour Fund contribution is 3% of the wage sum.

As a result of constant rise in expenditures a part of Labour Fund funds were earmarked for ALMP measures which accounted for about 10% of Labour Fund expenditures. In 1994–1996 a declining trend could be observed. In 1997 – 1998 when the unemployment clearly dropped Labour Found expenditures also were smaller and the means for ALMP grow up to 20% of the funds expenditure. Significant changes in the labour market policy related to young people (school –leaving pupil and students) were made. Instead of unempoloyment benefit they can now receive sholarships to continue their education. Also the state increased subsidies to workplaces of young employees. This two kinds of expenditures towards young people amounted in the years 1997 –1998 to about 10% of the Labour Fund expenditure.

*Table 13: Labour fund expenditures*

Item	1990	1991	1992	1993	1994	1995	1996
Labour Fund expenditures							
a – million zlotys	370.2	1,358.4	2,467.6	3,190.3	4,346.3	6,328.2	7,525.3
b – % GDP	0.7	1.7	2.1	2.0	2.1	2.2	2.5
c – real growth rate; previous year = 100	.	218.3	130.8	98.2	103.0	113.1	99.2
on unemployment benefits							
a – million zlotys	189.1	114.5	1,969.7	2,677.1	3,724.6	5,363.0	6,415.5
b – % share in total Labour Fund expenditures	51.1	82.0	79.8	83.9	85.7	84.7	85.2
on ALMP measures							
a – million zlotys	118.7	94.5	107.5	354.5	569.0	755.0	806.1
b – % share in total Labour Fund expenditures	32.1	7.0	4.4	11.1	13.1	11.9	10.7

Source: own estimates and calculations based upon MPiPS and KUP data on revenues and expenditures of Labour Fund.

The ALMP expenditures are dominated by so called intervention works which means subsidies to employment in terms of wage subsidies (approx. 40% of ALMP) and public works (approx. 33%). These are not the most effective measures (see Puhani 1998), however, their significance in the activities of labour market policies in the years 1997–1998 were less than earlier.

## Concluding remarks

Social expenditures in Poland constitute over 31% of GDP. This amount should be regarded as high, although international comparisons fail to provide sufficiently accurate figures on this issue. Data quoted by ILO, OECD and the EU Commission are often quite different because all these organisations use different definitions of social expenditures.

OECD statistics covers the broadest definition of social expenditures, as it is related to an IMF-recommended approach (see IMF, 1996). The approach implies that social expenditures cover all transfers made to the benefit of population and financial means for institutions providing social services, including expenditures on investments for these institutions. OECD statistics provide that the average figure for the ratio of social expenditures to GDP stands at 30% (see OECD, 1995). The figure for Scandinavian countries is higher than the average (36%), but smaller than the figure for Southern Europe, although dynamics of growth in these states is higher than in other countries.

In the 1960s social expenditures in Western Europe reached about 14%, whereas the figure for 1980 was close to 25%. In the 80s, dynamics of growth of these expenditures was lower, and the 1990s saw frequent attempts to diminishing their share, although the efficiency of such activities was not very high. Attempts were made to explain the growing tendency in social expenditures (see Schmidt, 1996). Especially the literature on political science provides numerous attempts of explanation of this phenomenon (see Mullard, 1997). It seems that politics-related explanations are important for transformation states but they are not sufficient.

Development of social expenditure in transformation states is subject to various factors characterised by numerous trends. Experience gained in Poland during the past decade point out to existence of the following tendencies:

- Efforts to maintain, or even extend the scope of socialist social solutions. This intend was visible in changes introduced to the pension system in 1990-1991 and in 1994. Maintenance of the current disability pension system also falls into this trend.
- An attempt to decrease social expenditure due to fiscal reasons. Therefore, the scope of universal family benefits declined and expenditure for social services were decreased the main reason for their dramatic commercialisation.
- Rationalisation of social expenditure caused by economic changes and social reform concepts. This has lead to the introduction of solutions which activate recipients, preventive measures and efforts promoting activating solutions and independence from benefits. The scope of such solutions is fairly narrow and holds a 20% share in the Wages Funds with regard to labour market expenditure.
- Compensation and social protection for individuals affected by new social issues - the unemployed and the poor.

These multifold tendencies had various impacts during subsequent stages of transformations. The initial period was dominated by defensive and fiscal activities. The debate on model changes, in particular social policy areas, has been held in late nineties and increasingly comprehensive solutions are slowly introduced to the entire social expenditure area, although basic disproportion has been maintained. On the one hand, such situation reflects maintenance of a significant excess of monetary transfers over social services, and on the other, the consolidation of a bigger support to the older generation compared to assistance for children and teenagers. These two major trends in public expenditure observable for 10 years of transformation constitute a certain threat to achieve the development goals. Upgrading processes require more funds to give better access to education, launch labour market activation and develop productive jobs.

The modest references to model solutions and consequently the minor impact of paradigms on the actual course of the social processes are an interesting feature of the debate. Top rank documents (the constitution) refer to such a term as "social market economy", but the term is interpreted from its meaning given by the German ordoliberal school texts (e.g. Eucken, 1952). In Poland social market economy stands for acceptance of market economy, respecting social goals and necessities created by its operations. The ordoliberal concept implies support for development of the market economy by social policy measures.

The period of transformation in Poland was dominated by highly pragmatic and political approaches. Pragmatism means that fiscal criteria are maintained and attention focuses on macroeconomic indicators: e.g., decrease in inflation, cutting down budget shortages. It should also be noted that supervision of stabilisation programmes by IMF requires fiscal savings regardless of their long-term social and motivating impact of particular types of expenditures.

As I have already mentioned, the political aspect of public expenditure including social expenditure, became the subject of various studies. Research on such countries as Italy, Greece, or Spain point to the fact that high expenditure on old-age and disability pensions is encouraged by their young democratic structure which have been introduced much later than in other European states. These countries were also characterised by low development level of other social security areas (see Mullard, 1997).

Transformation states witness a different situation, although their democratic systems are younger than in Italy, Greece or Spain. The first issue is related to the attitude towards the so

cialist welfare state. Due to political reasons it is not possible to relinquish the social model over a short period of time, and due to economic reasons it is not possible and reasonable to finance it any further. In such a situation, social policy is reformed much later than the economy and is subject to multifold tendencies and disproportions during the transition period.

The issue of limiting social expenditures in Poland is tackled with reluctance. Experts tend to point out the need for its restructuring rather than limiting its range (see Golinowska, 1998). The problem will be discussed during a debate on decreasing taxes, a concept presented by the current Minister of Finance in the so-called White Book of Taxes (see Ministry of Finance, 1998b). Decreasing taxes, mainly income tax, both personal and corporate, will require adjusting expenditures to the new situation. Still, there are no reserves left for social expenditures, and the biggest outlays on pensions will not decline in the near future. Newly launched reforms which concentrate on the development of the funded pillar of the pension system will require more means from public finances than the previous one (the need for financing the transitional period). Such situation points out that there is only one solution – to increase VAT, but such move may put at risk programmes of inflation prevention.

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