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POLISH FISCAL SYSTEM
STATE BUDGET AND FINANCIAL BALANCE - SHEET
IN ECONOMIC PLANNING¹

II

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I. The State Budget in the National Economy

The state budget is an integral part of the general system of planning, and is closely linked with the annual national economic plan. Both the budget and the plan are drawn up in a unified planning process. They are coordinated and jointly approved by state authorities. The budget is the basic financial plan of the state, covering accumulation and allocation of these financial resources which are directly controlled by the state apparatus.

The basic economic function of the state budget is the accumulation of financial resources and their allocation according to the premises of the country's policy for socio-economic development. This function of the budget is performed on the assumption that it covers a significant part of the national income. In this connection a significant part of the national income is under the control of the budget. On the average the budgetary income comes to 50-60% of the national income (in 1965 it came approximately to 55%.) One of the results of the recent economic reforms, which in principle are based on self-financing of industrial organizations, will likely diminish the role of the state budget in the national income.

The control of the state budget over such a significant part of the national income in Poland is primarily connected with the state control

1) M. Orłowski and J. Pajestka: State Budget in the Planning System. Observations from Polish Experience, UNO, April 1967, 14.

over the activity of socialized enterprises, banks, and other industrial and commercial organizations. The income from these organizations represents over 75% of the total receipts of the state budget.

The receipts of the state budget from socialized enterprises and the other organizations are mainly collected under two basic forms: first as the turnover tax which is differentiated for various groups of products and which in passing is an important instrument in the pricing policy, and second as the state participation in profits. The relation between these two main sources of budgetary receipts shapes more or less as 6.5. - 3.5. Recently, a new tax has been introduced, which is fixed as a percentage of the net value of fixed assets.

Since it has played a large part in the national income and its allocation, the state budget is the basic instrument of the redistribution of the income. It has the basic influence on the formation of the proportion of investment to the national income as well as on the directions of economic development and on the development of various social services.

On the side of the state budget expenditure a major part goes for the financing of the development of industry and other branches of the economy (over 60% of the expenditure). Investment and subsidies for certain branches of the economy and enterprises are financed primarily from the state budget. At present approximately 50% of all the investment outlays is financed from the budget, although the share of the budget in these outlays is decreasing and now it is much lower than in the 1950's. The remaining part of the investment outlays is financed out of depreciation, the financial resources owned by the economic organizations and the financial resources of the population. As regards financing investment, the budget finances primarily the construction of new large-scale industrial establishments and the infrastructure. Through its financing, the budget has a great influence on changes in the economic structure of the country and on creating favourable conditions for general economic development as well as on the development of individual regions of the country.

The next basic item on the side of the budgetary expenditure covers the financing of social services, including outlays for administration, health services, physical culture, education, science, culture, art, public order and national defence. In a situation when the needs of the population for the above-mentioned social services are met to a large extent at the cost of the state, it is understandable that the magnitude of the

financial burden for the budget, for example for free medical service, schooling, etc., is very big. Thus, for example, the budget is the basic source of financing education. The share of the budget in the overall outlays for education comes to over 90%. The budgetary outlays on current needs of social services (excluding investment and current outlays for the central administration, national defence, etc.) come approximately to 15% of the distributed national income.

II. The Budgetary System of Poland

The budgetary system of Poland is connected with the administrative division of the country. In a simplified form it may be presented as follows:

Administrative Unit	Budget of the Given Unit	Collective
1. Rural Community	rc	Budget
2. District	d	$d = rc + d$
3. Voivodship	v	$v = d + v$

Under item 1, there is only one budget covering the receipts and outlays of the given rural community (which is the lowest unit of the administrative division of the country). Under item 2, the budget consists of the district budget (higher administrative unit) and the collective budget composed of the individual budgets of all the administrative units within the area of the given district. Voivodship is the highest administrative unit and the structure of a voivodship budget is the same as that of the district budget, its component parts being the budget of the highest administrative unit and the collective budget covering the district budgets.

For the entire country there is a central budget and a state budget. The state budget is composed of the central budget and the budgets of all the administrative units of the country in a collective form.

The central budget covers over 85% of all the state expenditure. There is a tendency to decrease the share of the central budget in the

state's general budgetary expenditure. In the middle of the 1950's approximately 95% of all the budgetary outlays were covered by the central budget.

The central budget comprises receipts and outlays of the central authorities. All outlays for national defence, maintaining public order, servicing public debt are financed from the central budget. Out of this budget, too, are financed outlays for the economic development of the country. But financing of certain branches of the economy which are the domain of the local authorities is left to the local budgets concerned. The same holds for social services.

In general, out of the local budgets are financed a major portion of outlays for communal services, health service, education, cultural activities, agriculture, and others. The central budget covers the remaining outlays of national importance such as the development of infrastructure and industry (except the small-scale industry which is financed from the local budgets), science, higher education, social welfare, the central administration, etc. There is a clear and precise line of division between the fields (economic and others) as regards financing them either from the central budget or from the local budgets.

The central budgetary outlays are made by the central administration authorities (ministries) and the local budgetary outlays - by the people's councils which are the organs of the local state authorities.

Receipts of local budgets consist of their own financial resources and from financial allocations from the budget of the highest administrative unit. The latter are called equalization revenues. The revenues of the local budgets consist mainly of taxes from productive enterprises and economic organizations subordinate to the people's councils concerned. The equalization revenues consist of direct subsidies from a higher budget and a share in the revenues of the higher budgets of the area, arising mainly from taxes. This system is designed to make the local fiscal authorities in efficient collecting of taxes.

In the immediate post-war period the local needs were financed to a large extent from the central budget. At that time the revenues of the local people's councils were so small that they could cover only an insignificant part of their needs. Gradually, however, the financial possibilities of the people's councils improved. This was possible to achieve due to the economic development of the areas of activity of individual

people's councils. Increased receipts of the local people's councils enabled them to finance the local needs to a much greater extent from their own resources, which is illustrated by the table below:

Year	Total Revenues (billion zlotys)	Source of Revenue in %	
		Local	Equalization
1951	9.1	18.7	81.3
1955	19.8	28.8	71.2
1960	57.9	54.4	45.6
1965	87.5	53.3	46.7

The relationship of the central budget to local budgets is connected with the problem of centralization and decentralization of finance as well as with the problem of redistribution of income to individual regions of the country.

Under the present social and economic conditions of Poland the following factors are limiting the self-financing possibilities of local budgets:

a) The disproportions in the level of economic development of individual regions of the country, which under complete freedom of self-financing could bring about further disproportions in satisfying the needs of the population, especially in such fields as education, health service, culture, etc.,

b) The necessity of keeping control by the central authorities over the outlays of local authorities, mainly to ensure the effective realization of the general line of the social and economic development of the country.

The less disproportion in the level of the economic development of individual regions, the smaller necessity for the central control the undertakings of the local authorities, and the greater possibility of attaining freedom of self-financing by the local budgets. The necessity of redistributing the national income on a regional basis and the necessity of controlling the outlays result in the fact that about 50% of the local budgetary outlays are still covered by the equalization revenues which include about 1/3 of subsidies (in 1962 subsidies represented approximately 50% of the equalization revenues).

III. Towards Co-ordination of Plan and Budget

A close co-ordination of the budget with the national economic plan was the major goal of the planning system in Poland from the very beginning. This goal could be reached gradually, and although it still presents some problems, it can be stated that in principle it has been accomplished.

At the time the centrally planned system was being introduced (early post-war years), the budgetary system had at its disposal relatively well established financial institutions, certain traditions and relatively highly qualified personnel. At the beginning the central planning apparatus was lacking experienced personnel, institutions and methods of work. The socio-economic changes in the country have resulted in the fact that this administrative apparatus showed strong dynamism and acquired influence and grew in importance.

Of decisive significance for the growth in importance and influence of the central planning apparatus was the fact that it had at its disposal the investment outlays. For a certain period of time there existed two separate budgets: the so-called "ordinary budget" and the "investment budget" (state investment plan). The ordinary budget was disposed of by the financial apparatus while the state investment plan was drawn up and disposed of by the planning commission. Of course, the said two instruments were subject to the general line of the state policy.

The beginning of intensive industrialization of Poland (the 6-year plan of 1950-1955) witnessed major reforms in the economic apparatus, in the economic policy and in the planning methods. One of the basic directions of these reforms was to fully integrate the planning system. In an integrated planning system the financial and budgetary problems represent just one aspect in the whole economic process and are not regarded any longer as the most important ones. In the state planning system embracing a wide range of economic processes the financial problems have become of a secondary importance. In consequence the budget became completely subordinate to the national economic plan and economic decisions have been concentrated in the central planning apparatus.

In the integrated planning system the coordination of economic processes is expressed in the form of physical volumes and their financial implications are not realized automatically. In Poland the instruments of this co-ordination have been formed and improved over a

period of many years. Of special importance for the co-ordination of the national economic plan and the budget were the following measures:

- a) adoption of the same notions, classifications, etc. both for the plan and the budget (i.e. establishment of a common terminology for documentation),
- b) working out of the so-called financial norms defining unit costs of various services and products, on the basis of which it is possible to determine budgetary outlays for the implementation of the planned tasks,
- c) close co-ordination of the preliminary estimates of the budget and the plan at various stages of the planning process. This requires a harmonization of the guidelines for drawing up and approval of these documents,
- d) drawing up of a system of financial plans within the framework of the national economic plan embracing not only the state budget but also other financial incomes and expenditures, known as the financial balance-sheet of the state.

Owing to the above-enumerated measures a close co-ordination of the state budget with the national economic plan has been achieved. As the result, there are no fundamental divergencies between the plan and the budget.

This close co-ordination of the budget with the economic plan is connected to a large extent with the important role of short-term central planning (annual national economic plans) in guiding the economic processes. Under more decentralized system of management of the economy the role of the plan decreases. In this connection new problems arise between the economic plan and the budget and the role of financial instruments in regulating the economic processes increases.

IV. Plan and Budget in the Process of Formulation and Implementation of Development Policies :

The basic premises of the policy for the social and economic development of the country, covering the goals as well as the means and ways of their realization, are formulated in medium-term plans, usually covering a 5-year period. Long-term programmes for the economic development of the country covering the period of 15-20 years are auxiliary instruments for drawing up 5-year plans.

Drawing up a 5-year plan of economic development is not accompanied by an elaboration of a 5-year state budget. It is rather the plan itself which contains a general balance of production and the distribution of the social product and the national income as well as an intersectoral input-output tables and the financial balance-sheet of the state. These elaborations are analytical and serve to balance the general assumptions of the plan, i.e. that they ensure a general economic equilibrium especially between the state and the state controll receipt and outlays.

The general financial program drawn up as a part of the 5-year plan is broader in scope than the state budget. It covers the whole process of redistribution of income, among other things all investments, increases in stocks and reserves and the social services.

Attention should be drawn to the fact that the 5-year plan in Poland is not designed merely to formulate the general assumptions and guidelines for the economic policy of the country. The 5-year plan includes detailed and precise investment programs for all fields of the national economy. Particularly detailed are all new investment projects and more important modernization schemes of existing plants. For minor investments, of course, especially those to be financed by the enterprises, general estimates are given. The plan also contains a general reserve of financial resources for investments. This reserve is utilized during the implementation of the plan for financing investments and other goals which have not been provided for in the 5-year plan.

As it has been pointed out earlier, to achieve a full co-ordination of the economic plan and the budget, a wide range of planning techniques may be used. They are first of all important for the coordination of annual national economic plans with the state budget. Of great significance is the financial balance-sheet of the state, which is an integral part of the national economic plan and the input-output tables of material and financial flows.

The state budget covers a certain portion of the financial resources and their allocation, that is it covers those resources which are directly disposed of by the state apparatus (central and local authorities). Apart from the state budget, the monetary resources are also utilized by enterprises and other economic organizations, through bank credit and the financial turnover of the population. The process of accumulation and allocation is included in the financial balance-sheet of the state. Hence

it may be stated that the budget is an operative document whose general guidelines are included in the national economic plan.

The budget is co-ordinated with the national economic plan during the general planning process. Assumptions of economic activity as well as financial conditions and effects are mapped out during the planning process. It is difficult to guarantee that an agreement will be reached on the assumptions of the plan and the budget in the form they reach the central authorities. This is connected with the fact that at that level both the budget and still to much greater extent the economic plan are presented in an aggregate form. Thus the possibility of joint co-ordination of the plan and the budget are limited to a large extent to aggregations and hence approximations.

Besides from the methods and measures aimed at ensuring the greatest possible co-ordination of the plan and the budget there is a certain division of competence between these two documents. This line of division runs along the competence of the central planning apparatus and financial apparatus. In general it has been accepted that the planning apparatus deal with the development problems while the financial apparatus with the current needs.

Thus, investment decisions are prepared by the planning apparatus. In this sphere the role of the budget is restricted to the execution of the plan, i.e. to mobilization of financial resources for financing of the investment project and to control the utilization of the resources. The financial apparatus is not of decisive importance as regards the selection of investment to be financed. It may, however, exert some influence on investment to be financed from the financial resources of the economic organization concerned and through a bank credit.

On the other hand the financial apparatus and the budget are of the greatest importance as regards the allocation of resources on current needs for social and cultural services, administration, etc. These decisions, prepared by the financial apparatus are approved by the state highest authorities.

Experience shows that the co-ordination of the budget and the plan consists in the utilization of the budget as one of the main instruments for the implementation of the plan of economic development of the country.

§ 3. *The Financial Balance-Sheet of the State :*

1. The aggregate balances of the national economic plan consists

of the financial balance-sheet of the state including the balance of monetary incomes and expenditures of the population as well as the balance of the total formation and distribution of the national income.

Aggregate balance-sheets constitute the financial approach to the entire process of reproduction. This is necessary to establish whether the general principles of the basic sectors of the plan are reciprocally co-ordinated and balanced.

Balancing of the economic plan as a whole takes place through its particular sectors, which is the subject of separate synthetic balances.

2. The subject of the financial balance of the state is to balance total incomes of the socialized economy with its total expenditures. The state expenditures are directed first of all to the maintenance of the non-productive sector and to the development of the national economy.

The financial balance-sheet covers all the incomes and expenditures accumulated and distributed by the socialist financial system whose basic links include: the budgetary system, the financial system of the socialized enterprises and the credit system. Thus, the financial balance is simultaneously the balance of incomes and expenditures of the socialist financial system. This financial balance, however, does not constitute the sum of operative plans prepared for the above-mentioned links of the system because, to obtain a clear picture of the whole, they are treated separately.

3. The scheme of the financial balance-sheet of the state as used at present is illustrated in Appendix A to this information. For a clear presentation of the balance-sheet its shortened version is given below:

4. a) The main item on the side of revenue are the revenues from socialized enterprises, i.e. the state and co-operative enterprises. They appear mainly under the form of financial accumulation.

According to the principles of the financial system of enterprises, the financial accumulation is to be understood as the accumulation created by the overall activity of enterprises. It includes the difference between the sales value of production and manufacturing costs (accumulation on sales) as well as results of the non-operative activity of enterprises (which are usually negative) and other profits and unexpected losses.

Revenue	Expenditure
I. Revenue from socialized sector: 1. Financial accumulation of enterprises 2. Depreciation allowances of enterprises 3. Payments on social insurance 4. Other revenues	I. Current state budget expenditures : 1. Social and cultural expenditures 2. Social insurance 3. Financing of enterprises and other economic units 4. Public administration and justice 5. Other expenditures incl. national defence
II. Revenues from the population and the private sector : 1. Taxes and fees paid to the state budget 2. Payments to budgetary units for services 3. Payments connected with housing construction and various investment funds 4. Growth of financial resources of the population	II. Expenditures on accumulation in socialist sector : 1. Expenditures on investments and major repairs 2. Increment of stocks and reserves
III. Surplus of export receipts over import payments and other revenue connected with foreign trade turnover	III. Growth of credits for the population and private sector: 1. Turnover credits 2. Investment credits 3. Hire purchase credit
	IV. Excess of import payments over export receipts and other expenditures connected with foreign trade turnover

The whole financial accumulation is included into the financial balance-sheet, i.e. not only that part which is taken over by the state budget under the form of turnover tax, budget differentials², deduction from profits, etc. but also this part which is left at the disposal of enterprises and is redistributed outside the budget (e.g. funds allocated to the fund of the enterprise or to the enterprise development fund).

2) In the Polish financial system there exists an equalizing fund in the budget, which consists of the so-called budgetary differentials. When they are negative they play the role of budgetary subsidies. When they are positive they are the reverse of subsidies and have to be transferred to the budget.

Revenues of the financial balance-sheet from the socialized enterprises also include revenues which from the economic point of view should be treated equally with the financial accumulation. They comprise first of all payments on social insurance and taxes paid by certain kinds of enterprises such as tax on real estate, which are included into the manufacturing costs.

These taxes and payments on social insurance have an impact on the state budget (they are included into "Other revenues" above).

4. b) The so-called depreciation allowance of enterprises represent depreciation fund in the part destined for reproduction of fixed assets used in the process of production (major repairs) as well as in the part which, according to the financial system in force, is centralized and destined for investments (extended reproduction).

Inclusion of the full amount of investment outlays (gross investments) and outlays on major repairs into the expenditures of the financial balance-sheet corresponds to the inclusion of the depreciation fund into the revenues of the financial balance-sheet of the state.

4. c) Revenues from the socialized sector also include profits of the financial institutions, i.e. banks, insurance companies, saving - and - loan co-operatives, lotteries, number games and the hire purchase credit organization.

These profits are included into "Other revenues" above.

4. d) Revenues of the financial balance-sheet of the state from the private sector and from the population comprise above all the taxes and fees paid in favour of the state budget (e.g. land tax, taxes on salaries and wages), increase of the financial resources of the population (both under the form of cash and savings), payments connected with housing construction and various social funds (for example such as Schools and Boarding-Schools Building Fund).

4. e) Financial results of foreign trade turnover also have an impact on the financial balance-sheet of the state. Excess of imports over exports increase expenditures while a surplus of exports over imports increases revenues of the financial balance-sheet of the state.

5. There are two main groups of expenditures in the financial balance-sheet of the state: the maintenance of non-productive sector and the economic accumulation.

The first group is covered by the current expenditures of the state budget. The other one comprises outlays on investments, major repairs in the socialized sector and the increment of stocks. A distinction should be made here between market stocks, supplies of raw materials and semi/finished products stored by enterprises of various branches of the national economy and the state reserves.

Bank credits granted to the population and the private sector also constitute an expenditure of the financial balance-sheet.

Data concerning credits are evidenced both on the side of revenues and of expenditures of the balance-sheet. On the side of revenues this item covers credit repayments and on the side of expenditures - credits granted.

6. The planned financial balance-sheet of the state as a rule shows surplus of revenues over expenditures. This is the monetary reflection of this part of the national income for distribution which is not distributed at the moment of drawing up the plan and is held under the form of either commodities (market stocks) or means of production. Upon a comparison of the surplus of the financial balance with the surplus of the balance of monetary incomes and expenditures of the population it is possible to estimate the proportions of these elements, both of which may enter into the financial balance surplus.

This surplus, representing material resources undistributed at the stage of planning, constitutes the financial reserve of the socialized economy. This reserve may be distributed in the course of the implementation of the economic plan. It should be treated, however, as a reserve which may be utilized in case of disturbances in the process of implementation of the plan, which might bring about a decrease of the surplus (in case of higher expenditures, lower revenues than those planned, changes of the plan, etc.).

7. Equilibrium between the market and the money supply is an indispensable element of the financial equilibrium.

This equilibrium results from correct balancing of the monetary incomes and expenditures of the population, which more or less balance this part of the national income destined for individual consumption as well as the supply of services offered by the socialized sector with the purchasing power of the population.

Due to their role the above-mentioned balances are an important instrument of the current economic policy and are more widely used for this purpose.

8. Taking into account the role of the financial balance-sheet of the state, a special attention should be drawn to the co-ordinating function of this balance in relation to the operative plans, i.e. the plans which determine the tasks and rights of the state budget, financial plans of socialized enterprises and the credit plan, through which the process of redistribution is effected.

Owing to the elimination of mutual relations between the operative plans, the financial balance presents a clearer picture of the revenues and expenditures of the financial - balance-sheet of the state. This is immensely important for the co-ordination of separate financial plans with the principle and guidelines of the national economic plan and for the evaluation of the financial situation of the country. This feature of the financial balance-sheet appears to be of great importance in case of decentralization of the financial system which increases the scope of redistribution of the financial resources outside the state budget.

9. In planning practice synthetic balances are worked out for one-year periods and for periods of many years. Balances of monetary incomes and expenditures of the population are also worked out for quarterly periods. They are prepared by the Planning Commission at the Council of Ministers in an active co-operation with the Ministry of Finance and, in the scope of the balance of monetary incomes and expenditures of the population, with the National Bank of Poland.

The financial balance-sheet of the state and the balance of monetary incomes and expenditures of the population are also used as an instrument of the current financial policy. For this purpose the Ministry of Finance makes an analysis of their implementation in the course of the year.

§ 4. *Principles of Budgetary Planning*

As it has been shown in the previous chapters, the budget of the state in Poland is the main instrument of accumulation, distribution and redistribution of the national income. The most important source of the budgetary revenue are receipts from socialized economy, i.e. from the state and co-operative enterprises. They are collected under the form of turnover tax and indirect payments from the profit of state enterprises, transferred to the budget. A part of net income of the enterprises is left for the

enterprise and utilized by them within the framework of their self-financing. The other portion of the income is transferred directly to the budget. Principles of this division of profit are determined by the state.

Beginning with 1947 the budget of the Polish People's Republic has always had surplus of revenue over expenditure. In 1967 the share of the budgetary revenue from the socialized economy in Poland came to 73% and the share of the budgetary expenditure for this economy (investment and increase of turnover funds) reached 54%. The remaining part of outlays for the national economy is covered to an ever greater extent by state bank credits both short-term ones for turnover purposes as well as medium and long-term credits for investments. The main items on the side of Poland's budgetary expenditures cover the nation economy, replenishment of turnover funds of enterprises and investments (over 60% of all the expenditure. The second biggest item on the side of the budgetary expenditures concerns financing of collective consumption under the form of expenditures for administration, health service, physical culture, sports, education, science, culture, fine arts, national defence, administration of justice, etc.

The needs of collective consumption are met to a major extent by financing them by the state. This concerns not only education which is completely free of charge but also the health service. The working population of Poland does not pay any health service fees. This constitutes a considerable burden for the state budget, if one remembers that about 40% of the population is now under or above the working age. In consequence 40% of Poland's population does not take part in the production processes, hence in the creation of the national income, but participates in individual and collective consumption. According to the age groups the structure of the population of Poland is as follows: under the age of 19, i.e. in the schooling age there is 40.3% and at the age of over 65 there is only 6.5%. As the result the budget is burdened with heavy expenditures for education which is mainly financed from the budget. The budgetary financing of this field of the state's activity comes to over 90% of all the expenditures for this purpose. The share of expenditures for education is also very considerable in the distribution of the national income. Here is an example:

**National income and expenditures for education
in Poland in 1963 (in billion zlotys)**

National income	456.7
Expenditures for education of which :	24.5
from the budget	21.7
from other sources	2.8
Percentage share of these expenditures in the national income	5.3%

Due to a high degree of effectiveness of expenditure on education and due to its great importance for the national economy, the share of expenditures for these purposes in the national income and the state budget continues to grow.

Following the above explanation which was necessary of understanding the financial relations in Poland, we can pass over to the presentation of the structure of the Polish budget.

11. *Structure of the Budget*

The state budget in Poland consists of the central budget and the local budgets. Such structure is connected with the administrative division of the country in which there are central state authorities and the local state authorities (people's councils). The basis of the financial activity of the latter are the local budgets. The central budget encompasses the revenue and expenditure of the central and chief organs of the state authority like the parliament (Sejm), the Council of State, the Council of Ministers, ministries, the Planning Commission, the Supreme Chamber of Control, etc. Total expenditures for national defence, maintenance of public law and order (administration of justice), servicing the public debt (both domestic and foreign) are financed from the central budget. Expenditures for the national economy are also financed to a large extent from the central budget, especially those in favour of enterprises subordinated directly of the central state authorities and enterprises of special national importance. Expenditures in favour of local enterprises, however, subordinated to the local authorities (people's councils), are financed from the local budgets concerned. The criterion of financing individual state enterprises either from the central budget or from local budgets is the subordination of the given enterprise. The above-mentioned, Poland's biggest iron and steel combine, the Lenin Works, which is subordinated

to the Ministry of Heavy Industry, is financed from the central budget to which in turn a part of the profit of the Works is paid. Small enterprises, however, subordinated to the Warsaw People's Council are financed from the local budget of the people's council concerned to which the enterprises transfer a part of their profit.

What are the links between the central budget and the local budgets? There are two types of local budgets: individual budgets and aggregate budgets. An individual budget is the budget of a single people's council on the level of rural community, district, voivodship or a town administratively independent of any voivodship authority. An aggregate budget is composed of individual budgets of the people's councils covering the area of the given district or voivodship. In big cities like Warsaw the individual budgets of the Warsaw district people councils and of the presidium of the Warsaw People Council taken together form the aggregate budget of entire Warsaw. All aggregate budgets of voivodships and towns administratively independent of any voivodship authority (Warsaw Łódź) and the central budget form the state budget. The lowest budgetary link in the provinces are the budgets of rural communities. All local budgets consist of their own revenue and of the funds provided them from budgets of administrative units of higher rank. They supplement the budgetary revenue proper and are called the equalization revenues. Revenues of local budgets consist of receipts from enterprises subordinate to the local people's councils, taxes and local fees, receipts from the sale or hiring of property rights. The equalization revenues of the local budgets are subsidies from higher ranking budget and a share in the revenue of the central budget from taxes collected within the area of the given people's council (for example a share in the revenue from income tax, turnover tax, land tax). This system is aimed at getting the local authorities much more interested in efficient collection of taxes by the local fiscal apparatus. Immediately after the war the financial needs of the people's councils were met to a considerable degree by subsidies from the central budget. At that time their revenue was small and insufficient for covering their most urgent needs. In line with the economic development the share of revenue of the local people's councils in meeting their needs increases too. This evolution is illustrated in the following table:

**Equalization revenues and revenue of local
budgets in 1951-1964³**

Year	Total revenue		Revenue of local budgets		(in thous. million zlotys) Equalization revenues	
	(billion zł)	%	(billion zł)	%	(billion zł)	%
1951	9.1	100	1.7	18.7	7.4	81.3
1952	10.2	100	3.5	34.3	6.7	65.7
1953	15.0	100	3.2	21.3	11.8	78.7
1954	18.4	100	5.8	31.5	12.6	68.5
1955	19.8	100	5.7	28.8	14.1	71.2
1956	25.0	100	5.6	22.4	19.4	77.6
1957	36.9	100	17.1	46.3	19.8	53.7
1958	44.4	100	24.1	54.3	20.3	45.7
1959	51.1	100	27.6	54.0	23.5	46.0
1960	57.9	100	31.5	54.4	26.4	45.6
1961	63.9	100	35.7	55.9	28.8	44.1
1962	75.0	100	41.2	54.9	33.8	45.1
1963	76.4	100	42.7	55.8	33.7	44.2
1964	80.8	100	43.0	53.2	37.8	46.8

The relation of people's councils to the central authorities and their budget is closely connected with the problem of centralization and decentralization of finances⁴.

This problem is of great importance not only from the point of view of management but also planning. In contradiction to other multi-national socialist states such as the Soviet Union, Yugoslavia or Czechoslovakia, since the post-war period Poland has been a nationally homogenous country. As the result in other socialist states the federal state organizations result from their internal nationalist structure and from distinct differences in the level of development of individual federal republics which are inhabited by different ethnic groups of the population. In this connection problems of financial centralism or decentralism in those countries are shaping in quite different manner than in Poland which is of nationally homogenous structure. As a result, in the Polish structure of socialist economy the problem of financial centralization and decentralization consists in the attainment of such degree of development and experience of the organs of the local authorities that it will make it pos-

3) A. Komar, *Struktura budżetu Polskiej Rzeczypospolitej Ludowej* (Structure of the Budget of the Polish People's Republic), Warszawa 1966, pp 207.

4) Centralization and Decentralization in Public Finance, İstanbul, 1962, Congress of the International Institute of Public Finances.

sible to transfer to them ever bigger tasks and financial resources for financing the local economic activity. Thus of the decisive importance is the degree of economic and financial development of the apparatus of the local authorities. As long as that level was low, nearly all economic decisions had to be taken centrally by the central authorities and the local organs were made responsible for the technical execution of those decisions. During the immediate post-war period, when pre-war specialists had been killed by the occupant and there was a lack of newly educated people in the methods of socialist economy, it was much easier to find and employ few financial specialists in the organs of the central authorities and direct the financial processes centrally from the "top" rather than to run the risk of leaving freedom of important economic decisions to unexperienced and incompetent in this field employees of the local people's councils. After a lapse of time, however, when many people were graduated at secondary vocational schools and at universities, it became possible to raise the level of qualifications of the staff of the organs of the local authorities. Also then it became possible to extend gradually the scope of power of those authorities and transfer to them new tasks, first of all in the field of health service, education, culture and regions (e.g. through tourism promotion) as well as such functions as assessment and collection of land tax.

The above-said evolution is always connected with a gradual transferring by the central authorities to the local authorities of adequate, financial resources. As the result of this evolution the structure of revenues of the local people's council in 1964 was as follows:⁵

Revenues of local budgets	thous.mill.zl.	%
A. Receipts from socialized economy		
1) from enterprises of the local authorities	15.3	
2) from co-operatives	6.2	
3) share in receipts from enterprises subordinated to central authorities	19.8	58
B. Receipts for hiring various facilities	3.5	5
C. Taxes :		
1) from private sector	9.9	
2) from population (incl. participation in tax on salaries and wages)	9.7	27
D. Subsidies from central budget	6.9	10
Total	71.3	100

5) A. W. Zawadzki : "Niektóre zagadnienia gospodarki budżetowej rad narodowych" (Some Problems of budgetary policy of people's councils), *Studia Finansowe, Zeszyt* :, p. 74, Warszawa 1965.

In Poland expenditures of the state for the local needs of agriculture, communal economy, health service and education are financed from budgets of the people's councils. Almost a half of these outlays is spent for cultural activities for the population. Worth recalling is the fact that expenditure for national defence, for the transformation of economic infrastructure of the country, education at all levels, old-age and disability pensions, social welfare, central administration, administration of justice, servicing the state debt and for maintenance of state reserves, are financed from the central budget. Hence, the central budget finances all the national and fundamental tasks.

12. *Improvement of Planning*

As it comes from Chapter 2, in the Polish model of the socialist national economy there is a close interrelation between the state budget and the national economic plan, the credit plan, the balance sheet of monetary incomes and expenditures of the population, financial plan of the state is the financial balance-sheet of the state, described in Chapter 3, above.

All the above-mentioned plans, however, give us only the illustration of monetary processes taking place in the sphere of financial phenomena of a socialist state. A number of economic magnitudes in these processes must be determined on the basis of estimates. It is known by experience that certain disproportions may appear in the course of the implementation of individual plans. These disproportions may illustrate incorrect proportions resulting from wrong planning or from political or economic situation of the country at the time of drawing up the plan. Revealing such disproportions or incorrect estimates adopted for drafting the plan is of great importance. One of the methods of revealing inconsistencies in plans in Poland is the input-output method of material and financial flows, elaborated by the Institute of Finance. Owing to this method it is possible to make a confrontation between the processes of material flows, which makes it possible to correct the plans at the stage of drawing them up or during their implementation. In the course of elaboration of the budget estimates, owing to the planned balance-sheet of material and financial flows, it is possible to link it much better

with the national economic plan and with other aggregate financial plans. Moreover, the method of material and financial flows makes it possible to isolate the sphere of material production and non-material services as well as to make a division of receipts and expenditures according to their origin and destination within these two spheres. All this renders it possible to make rational clearance of the whole process of formation and distribution of the gross national product. As far as the national income is concerned, owing to the method of material and financial flows, it is possible to make its primary, secondary and final distribution. The balance-sheet of material and financial flows has been made since 1961 under the form of a chessboard (38 x 47 items and 60 60 auxiliary tables). Table A is the most aggregate one and illustrates processes of the entire national economy without its division into branches. In table B the economy is divided into the socialized and non-socialized economy. This distinction and division is of great importance for the economic policy of the state. Thanks to this division it is possible to make operative observations of material interrelations (flows of materials and services) between the sector of the socialized economy and individual agriculture as well as the private sector economy outside agriculture and the flows of money between these sectors in the sphere of material services and non-material services. Relations existing between the material and nonmaterial spheres in these two basic sectors are of great importance for a thorough financial analysis. This makes it possible to follow the sources of money flows to and from the state budget as well as on the bank accounts the flows of credits between the budget, the enterprise and the bank.

The most detailed of all is table C which embraces flows of 11 aggregate groups (spheres) such as material production, foreign trade, non-material services, the state budget, households, material and financial accumulation, various funds of enterprises, assets and liabilities on bank accounts, errors and omissions. It is obvious that the degree of disaggregation may be much more detailed according to the current requirements of the Ministry of Finance.

The above-mentioned method has proved its practical advantages, particularly in the budgetary planning. As compared with the traditional planning methods the balance-sheet of the material and financial flows

constitutes an important step forward in the direction of a better knowledge of correctness of the budgetary estimates, particularly those concerning concrete needs in the sphere of collective consumption, e.g. in the sphere of financing education or health service and the effectiveness of outlays for collective consumption. Although in the traditional budgetary methods the ideal of budgetary norms has been known, they require now quite modern elaboration. The traditional budgetary norms, for example such as expenses connected with the treatment of a man in the given type of hospital or sanatorium, must be supplemented with the problem of participation in the expenses on the part of the persons undergoing the treatment, whether the service is to be rendered to the citizen absolutely free of charge within the framework of the collective consumption or whether the person concerned may or should contribute some payment.

It is obvious that a socialist state is in a position to ensure free services to its citizens within the framework of collective consumption, not only as regards free health service but also free medicines. But establishing a partial participation in the financial outlays by the citizens, e.g. for medicines, restrains wastefulness. It is known by experience that free services are not always appreciated as they should be. Free medicines often are ordered but nobody cares to collect them because they are not paid for. For this reason, sometimes even a symbolical payment helps cut down the demand for services on the part of those who in fact are in no need of them. As an illustration there may be used such phenomena as long queues in out-patient clinics or difficulties in getting a bed in hospital for which the demand grows rapidly, because these services are free of charge. It happens that those in need of these services cannot use them because the hospital beds are occupied by those who do not need them indeed but use them because they are free of charge. It comes from the above that the problem of partial participation in expenses, of correct budgetary norms, tariffs, pricelists, poses not only an economic but also a social problem. Finally, of great importance in the Polish budgetary planning is the problem of correct classification. It is of particular importance in the socialist planned economy because the correct budgetary classification is possible only when there are proper financial records and statistics. The latter help coordinate the budget, the financial balance-sheet of the state and the national economic plan. Of still greater importance is the fact that a correct classification facilitates a change over from accounting by enterprises to bank account-

ing and to budgetary accounting. Only a complete co-ordination of these three ways of accounting will make it possible to apply and to use modern computers for the preparation of reports and financial planning. These techniques bring quick and exact results which are impossible to attain in the utilization of the obsolete and traditional techniques of budgetary accounting.

APPENDIX A

Scheme of the Financial Balance-Sheet of the State

Item	Revenue / Expenditure	Anticipated fulfillment in current year	Plan for the next year	% 4 : 3
1	2	3	4	5
	REVENUE			
I	Internal financial accumulation of enterprises			
II	Return of turnover tax on export and on indirect accumulation			
III	Financial results of turnover of goods and services with foreign countries			
IV	Depreciation allowances of enterprises			
V	State budget revenue :			
	1. Payment and other economic units			
	2. Payments from social and cultural units and institutions			
	3. Social insurance			
	4. Receipts from public and justice administration and prosecutors' offices			
	5. Taxes and fees from private sector			
	6. Various taxes and fees			

Appendix A (Cont. 1)

Item	Revenue / Expenditure	Anticipated fulfillment in current year	Plan for the next year	% 4 : 3
1	2	3	4	5
VI	Surpluses of financial institutions: 1. surpluses of banks 2. surpluses of state insurance companies 3. surpluses of lottery enterprises and number games			
VII	Increment of cash resources of the population : 1. Increment of financial resources 2. Increment of savings			
VIII	Receipts from credits granted to private sector and the population: 1. Receipts from departments of turnover and investment credits extended to private sector and the population 2. Receipts from repayments of hire purchase credits			
IX	Other revenues of the financial system			
X	Total revenue			
	EXPENDITURE			
I	Current expenditure : 1. Current expenditure of the budget : a) financing of enterprises and other economic units b) social and cultural services c) social insurance d) public and justice administration e) internal debts			

Appendix A (Cont. 2)

Item	Revenue / Expenditure	Anticipated fulfillment in current year	Plan for the next year	% 4 : 3
1	2	3	4	5
	2. Financing of units not covered by budgetary financing			
	3. Current expenditures from funds created by the distribution of the financial accumulation			
	4. Credits granted to private sector and the population :			
	a) turnover credits			
	b) hire purchase credits			
II	Expenditures on the accumulation:			
	1. Expenditures on investments :			
	a) investment outlays in the socialized sector			
	b) investment credits for private sector and the population			
	2. Expenditures on major repairs			
	3. Increase in stocks and reserves			
III	Other expenditures			
IV	Total expenditure			