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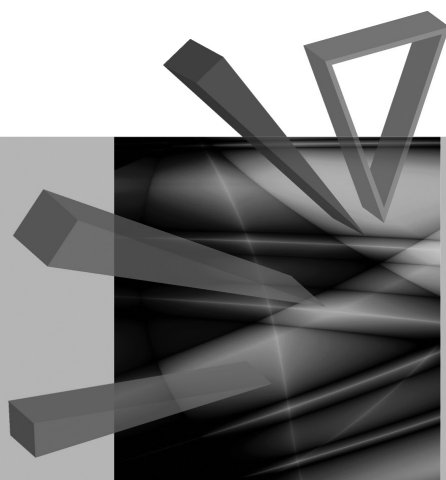
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THE PUBLIC HEALTH CARE SYSTEM REFORM AS A BARRIER TO LOCAL AND REGIONAL DEVELOPMENT IN POLAND

Summary: This article presents the impact of health care reform on local and regional development in Poland. The first section presents the institutional determinants of local and regional development, which allow to determine the personal scope of the study. The second part focuses on the issue of the sources of costs local authorities incur which are required for the organization of health care, and thus define the scope of the study. The third part of the article shows how to finance health care and hence set the scale of the phenomenon. The final section presents the impact of health care reform on the financial position of the bodies responsible for local and regional development.

Keywords: local and regional development, local government units, public health care system reform, financial independence.

1. Introduction

The crucial factor in local and regional development is investment. Those responsible for this development, the powiats and the voivodeships, are faced with inadequate funds to accomplish this purpose. There are many reasons for this. One of the most important is the lack of self-sufficiency for the method of financing the duties imposed on the powiats and the voivodeships. A good example of the lack of relevance is the structure of the healthcare system. The system which is, on the one hand, obliged to be organized or ruled by the local government units by paying the costs, on the other hand there has been created a subject which charges for them.

This article presents the impact of the health care reform on the local and regional development in Poland. The significant research methods used in this article are: historical, systemic, functional institutional and legal acts. The first section presents the institutional determinants of local and regional development, which allowed to determine the personal scope of the study. The second part focuses on the issue of the sources of the costs which local authorities incur, required for the organization of health care and thus define the scope of the study. The third part of the article shows how to finance health care and thus set the scale of the phenomenon. The

final section presents the impact of health care reform on the financial position of the bodies responsible for local and regional development. The ending presents the conclusions derived from the whole paper.

2. Institutional determinant of local and regional development in Poland

One of the main objectives of the administration and the Health Care System reform in Poland in 1997–1998, was to have a systemic (political), consolidation of public finances which were authorized to enact the public budget (state budget and budgets of the local government units). The goal would be reached indirectly (probably the most important transition to democracy) if the rationality of public finances through transparency and comprehensibility was increased. In Poland in the late 1990s, this rationalisation of public finances was closely associated with the reform of the health care system.

The health care system, under the constitutional record on the decentralization of public administration, needs changes in the regulations, institutions and forms of the Polish financial system. It seemed obvious that changes in the health care system should be coordinated with the reform of local government units. However, the opposite happened. The new administrative division of Poland into powiats and voivodships took place almost simultaneously with the introduction of health care system reform [Gilowska 2000, p. 7]. The primary factor in local and regional development is the decentralization of public administration. The aim of successful decentralization is dividing the power among constitutional public entities, which mainly depends on:

- transferring the maximum part of public financial resources towards the subjects who carry political responsibility, and which are controlled by the voters,
- creating possibilities to the local government units to use their financial powers,
- the precise division of financial powers between the government and the local government units as separate entities from the state public authority,
- respecting financial guarantees to the local government units as one of the key attributes of their independence [Gilowska 2000, p. 5].

The legislative and institutional changes that occurred in Poland in 1997–1999 were supposed to have contributed to a rapid economic development at local and regional levels. The legislative foundations of the Polish Constitution created in 1997 [Konstytucja Rzeczypospolitej Polskiej... 1997, art. 164], in Article 164 provided for the establishment of local government units other than municipalities. However, before the powiats and voivodships were created, a new type of local public administration appeared – health care insurance offices – so-called *kasy chorych*, which were converted into the National Health Fund in 2003. This entity is not considered as either the government or the local government, but is endowed

with wide powers and negligible systemic responsibility to charge their own fees and disbursements under public law.

The organization of the health care system is the responsibility of powiats and voivodships, as those responsible for local and regional development. The separation of the organization of medical services from their financial support creates a situation in which, on the one hand, local government units are responsible to society for the organization of medical care, and on the other hand, the government units have no effect on the financial resources given for this purpose.

3. Costs of health care organization passed on to the local government units in Poland

One of the tasks of the local government units within the reformed health care system was taking over the function of the health care organizer. The local government units have taken over the function of the funding organ for the majority of public health care units [Ustawa z dnia 13 października 1998 roku... 1998, art. 47]. Changing the method of financing health services and the creation of the new administration i.e. health care insurance offices, changing the name to the National Health Fund, has caused the limitation of the tasks of local government units. In addition, the task of the local government units have not been defined precisely enough to function properly. It was stated in the first diagnosis of the previous state of law, called indefinable accountability, that public subjects were limited and responsibility was avoided by individual entities [Włodarczyk 1999, p. 12]. That applied to the legislative mistakes made during the implementation of the reform, the lack of comprehensibility and of the precise determination of responsibilities and relationships of the main actors in the health care system such as: the government, the public taxpayer, the providers, the local government, as well as the local government units.

The expectations about the role of the local government units have been based on the same vague statements of the initiators of the reform of public administration in 1998, who depicted the matter of health care system as “a matter for local government units” [Golinowska et al. 2003, pp. 281–293]. Looking at the vague records of the tasks of the local government units in the constitutional laws, it can be stated that the declarations were merely words.

The former rule of the local government units in the reformed health care system is described as a compromise between different aspects. One of the concepts was the total subordination of the health care system to the local government units. The latter did not expect at all the need to include the health care system. The compromise in this area contributed to the emergence of a new fact, not expected by anybody. In practice, it turned out to be imprecisely defined, and local government did not have any effective tools for its fulfillment [Włodarczyk, Sitko 2000, p. 57].

4. Health care revenue passed on to the National Health Fund in Poland

The organization of the health care system was mostly delegated to the powiats and voivodships. The separation of the organization of medical services from their funding creates a situation in which, on the one hand, the local government units are responsible for the society, for the organization of the medical care, on the other hand, they have no effect on the financial resources earmarked for this purpose. Such a solution can carry many risks. First of all, the National Health Fund creates a new type of public administration, different from the government and local government units, endowed with varied powers but little systemic responsibility by law to charge and expend their own public fees. These charges are de facto “the health insurance tax” because the cardinal principle of any security system is the dependence on the contribution from the scope of the services provided. However, in the case of the National Health Fund, the contribution rate is proportional to the amount of the income of the insured. Health insurance contribution in the period 1999–2000 was 7.5% base (and from 2001 gradually increased by 0.25% *per annum*), which is the subject of income from personal income tax.

Table 1. The budget of the National Health Fund (NHF) compared to the total income of powiats and voivodships in 2003 – 2011 (million PLN)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
A. Total NHF income	21 971	22 934	34 345	37 577	44 019	52 807	56 938	57 586	60 722
B. Total NHF costs	22 578	22 874	33 534	36 709	42 257	51 656	57 633	59 326	60 922
C. Total income of powiats (with the exception of the cities regulated by the laws of powiats) and voivodships	15 677	19 442	20 829	24 330	27 504	30 807	39 695	36 603	38 583
D. (C/A) Ratio total income of powiats (with the exception of the cities regulated by the laws of powiats) and voivodships to the income NHF	71,4%	84,8%	60,6%	64,7%	62,5%	58,3%	69,7%	63,6%	63,5%

Source: own calculations based on reports of the performance of the National Health Fund budget in 2003–2011 and the reports of the national budget – information on the execution of the budgets of local government units in 2003–2011.

The budget of the National Health Fund accounted for a significant part of the public finance sector in Poland. This part was much higher than the budgets of the

powiats, with the exception of the cities regulated by the powiat and voivodship laws together.

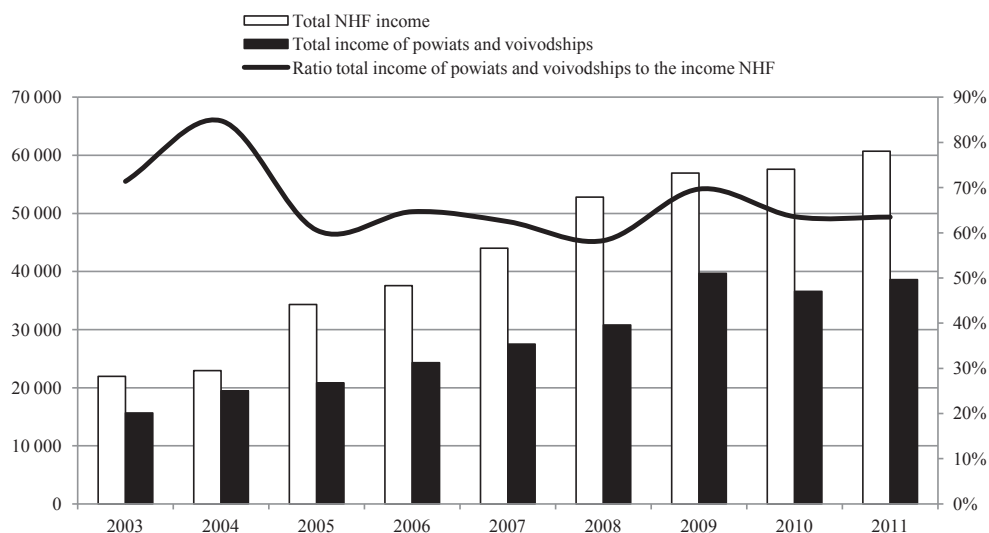


Figure 1. The budget of the National Health Fund (NHF) compared to the total income of powiats and voivodships in 2003–2011

Source: own calculations based on reports of the performance of the National Health Fund budget in 2003–2011 and the reports of the national budget – information on the execution of the budgets of local government units in 2003–2011.

This comparison leads to the conclusion that the second stage of the decentralization of public administration was primarily of the “health care trade”. The establishment of the so-called *kasy chorych*, and then converting them into the National Health Fund directly upset the newly created powiats and voivodships. The work done by *kasy chorych* (the National Health Fund) could have been done by the local government units, which is the most important organ in a representative democracy possessing political accountability.

The establishment of local government units is the territorial decentralization of the public administration. Their representative bodies are elected by popular vote and assume the political system’s responsibility for the execution of tasks and responsibilities, but the creation of the National Health Fund is a “health care trade” decentralization of public administration. This path of decentralization is not regulated in the Constitution nor does it comply with the principle of subsidiarity. Although the constitution requires the state’s political accountability in organizing and financing equal access to health services [Konstytucja Rzeczypospolitej Polskiej 1997, art. 68, paragraf 2], but health insurance is limited to the financing of the health services, excluding the organization of the health system.

5. The problem of financial independence of powiats and voivodship in Poland

The newly created powiats and voivodships condoned the financial policy prepared for the local and regional development. Powiats and voivodships have not been equipped with the attribute of the financial powers, which is the key element of self-development policy. They have no right to determine the tax rates and may not apply a system of reductions and exemptions, and reliefs, tax deferrals and cancellations by administrative decisions. In this way, in the case of powiats and voivodships, art. 168 of the Constitution was broken, in which powiats and voivodships have the right to determine the amount of local taxes and charge to the extent specified in the Act. The vast majority of the revenue of powiats and voivodships are transfers from the state budget (which in the first five years accounted for more than 90%, in subsequent years the rate has improved slightly, but has never been lower than 83%) [Jańczuk 2011, p. 285]. It is also worth noting that the lack of impact in terms of revenue and lack of opportunities to develop the system of tax exemptions and remissions in question, or in an administrative decision at the request of the taxpayer, as the lack of capacity to effectively compete for investors who contribute to the local and regional development.

The Local Government Revenue Act in 2003, only slightly increased the predictability of powiats and voivodships, the income and their nominal and the real value. Unfortunately, the independent income of both powiats and voivodships as local government, has increased only slightly after 2003. Also, despite the subsequent adoption of two public finance acts (in 2005 and 2009), the financial position of powiats and voivodships has not improved significantly. While creating local and regional development is not limited solely to the allocation of financial resources, it also involves their multiplication through rationally related policy development, including targeting the labor market, infrastructure investment, supporting the development of economic operators, promotion and territorial marketing. As defined, the system entities are characterized by specific features. Operators, households and institutions interact in a variety of environmental, land use, population and living conditions for local markets, and directly and indirectly, with each other.

In the process of functioning of these entities, there exists a number of interconnected and interdependent cases of collaboration and cooperation, the exchange of goods and services, providing employment, competition, etc. [Zalewski 2007, p. 8]. Entering into interaction and exerting an influence on other elements of one's surroundings, becomes one of the most important elements of the decisive changes in almost all the local economic and social structures. This feature means that their development, combined with a positive balance of influence on the evolution of their environment, is associated with the local context.

But it is hard to imagine that the implementation of particular objectives for the listed entities of the local economy will proceed without any conflict, and will always contribute to the development of the whole local system. Each of them, maximizing their benefits, often works against the interests of others, and has a negative impact on the environment, space, resources and even social attitudes. It is easy to infer from this that a simple sum of individual benefits will never be used to optimize the benefit of all the local system. It is, therefore, the element of these players to affect the local economy so that their existence and development is to serve the desired, complex transformations in the level of quality of life and the economic functioning of its organs. The local government is just that element. Its primary role is to provide a situation in which harmonized and systemic local economic actors will aim to create new and improved usability of existing municipalities, creating favorable conditions for the local economy and to ensure orderly development and environmental impact. This role is consistent with the theory of the state in a market economy, according to which, in order to ensure sustainable development, it has to balance the conflicting interests of the social and self-regulating structure of the public good and economic freedoms. To achieve this goal, local government units at the level of powiats and voivodships should perform the functions of initiating, planning, assisting, coordinating and controlling the entire system, which is the local regional economy. However, it requires financial independence, especially of powiats and voivodships.

To summarize, in effect the second stage of reform of public finances, in 1997–1999, such as the powiats and voivodships and the so-called *kasy chorych* were brought to life. The powiats and voivodships are the entities whose appointment is provided in the provisions of the Constitution, they have a political legitimacy, and one of the main objectives of these entities is to create local and regional development. The National Health Fund, however, is not governed by the Constitution, does not assume political responsibility for the execution of their tasks, and takes public funds for this purpose with a value far exceeding the revenue of powiats and voivodships. The common part of these two groups of actors is that they participate in the public revenue, and that they are responsible (in different fields) for the health care system. In subsequent years (2003, 2005, 2009) some changes in the system of public finance were carried out. In 2003, *kasy chorych* were transformed into the National Health Fund and the Act on the revenue of local government was passed. In 2005 and 2009, there was passed another law on public finance. Unfortunately, despite these changes, the model of public finance system has not changed significantly. Now the National Health Fund revenue constitutes approximately 10% of the entire public finance system (the state budget, local government budgets and the budgets of other entities of the system of public finance. This revenue flows directly into the budget of the National Health Fund and no other entities participate in it (this is the revenue generated by the NHS). The revenue districts and provinces governments represent approximately 6% of the revenue system of public finance and most of these are

transfers from the state budget (their own revenue accounts for just over ten percent of total revenue).

In the implementation of the tasks related to health protection the performance of the National Health Fund is primarily limited to the financing of medical services and the reimbursement of medicine. Local government units are responsible for organizing the health care system, which they also finance from their own funds.

6. Conclusion

Without a radical change in the whole system of public finance, the effective implementation of local and regional development will be much more difficult. Currently, the Polish public finance system consists of the budget, the budgets of the local government units and other public finance entities, among which the largest is the National Health Fund. The groups of other entities of the public finance system (as opposed to the state budget or local government budgets) are not responsible for the system of , focusing on and spending public funds, and on incurring financial obligations involving public funds [Jańczuk 2011, p. 286].

From the perspective of the local and regional development, the National Health Fund is the subject of “extruding” local and regional self-governance of the public finance system. Currently, those examining the public finance face the task of developing an appropriate system of public finance in order to rationalize or eliminate part of the National Health Fund in the public finance system for the benefit of the local government units (perhaps also in favour of some parts of the central government). The purpose of these changes should be the openness, transparency, effectiveness, legality and desirability of the public finance system in Poland, while the effect will probably increase the local and regional development by increasing the local government autonomy to the level, where it will perform an essential part of the public tasks (which actually is the majority of tasks) at their own risk and on their own behalf.

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REFORMA SYSTEMU OPIEKI ZDROWOTNEJ JAKO BARIERA DLA ROZWOJU LOKALNEGO I REGIONALNEGO W POLSCE

Streszczenie: W artykule przedstawiono wpływ reformy systemu opieki zdrowotnej na rozwój lokalny i regionalny w Polsce. W pierwszej części artykułu zaprezentowano determinanty instytucjonalne rozwoju lokalnego i regionalnego, co pozwoliło określić zakres podmiotowy opracowania. W drugiej części artykułu skupiono się na zagadnieniu źródeł kosztów, do których ponoszenia samorządy terytorialne są zobligowane w zakresie organizacji opieki zdrowotnej i dzięki temu określono zakres przedmiotowy opracowania. W trzeciej części artykułu, zaprezentowano sposób finansowania opieki zdrowotnej, co pozwoliło określić skalę tego zjawiska. W ostatniej części zaprezentowano wpływ reformy służby zdrowia na sytuację finansową podmiotów odpowiedzialnych za rozwój lokalny i regionalny. W zakończeniu przedstawiono wnioski końcowe, wywodzące się z zasadniczej treści artykułu.

Słowa kluczowe: rozwój lokalny i regionalny, jednostki samorządu terytorialnego, reforma służby zdrowia, samodzielność finansowa.