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Why did Donald Trump really get elected?

Abstract

Objectives: Many explanations have been offered of Donald Trump's rise to the presidency of the United States. Most focus on the candidates and events in or around their campaigns. This paper argues that a much-neglected part of the story lies in long-developing structural and historical trends in the U.S. political economy upon which the Trump campaign capitalized.

Research Design & Methods: The paper provides an historical analysis of the structural changes in American political economy that contributed to Trump's rise to power.

Findings: Trump's rise to power was premised on decades-long changes in the U.S. economy, race relations, ideology, party politics and Obama's presidency.

Implications/Recommendations: To understand Trump's rise to power we need to understand the changes in American political and economic life that sowed the seeds for his election.

Contribution/Value Added: Other accounts of Trump's victory focus on short- or medium-term factors. This paper puts them all into longer historical perspective.

Keywords: Donald Trump, American politics, public governance, presidential election, political economy

Article classification: Research article

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This paper explains why Donald Trump was elected President of the United States in 2016. Most explanations of Trump's rise to power focus on the short-term idiosyncrasies of the election. Russian interference in the campaign. FBI Director James Comey's letter to Congress days before the election announcing a renewed investigation into Hillary Clinton's emails. The Clinton campaign's strategic missteps in key swing states such as Michigan and Wisconsin.[1] Trump's celebrity and deft media skills, honed to perfection on The Apprentice, his reality TV show. His ability to read a crowd and play to its concerns. Clinton's lack of charisma on the stump. I could go on.

A second set of explanations, more scholarly and analytic, focus on medium-term factors. For instance, some political scientists have attributed Trump's victory to his use of inflammatory language on the campaign trail, which rallied his base. However, his ability to do this, it is argued, was only possible because the Freedom Caucus in the House of Representatives, representing the right-wing Tea

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[1] Of course, Clinton won the popular vote only to lose in the Electoral College.

Party Movement, blazed a trail of inflammatory rhetoric in the few years leading up to the presidential election. In other words, the Freedom Caucus tilled the soil from which Trump's effective rhetoric grew (Gervais & Morris, 2018).

Certainly, there is some truth to the list of explanations I just mentioned about why Trump won. Contingencies like these always affect elections. But all these arguments miss the point. There were much deeper long-term trends at work that have been virtually ignored so far in the literature. But two stand out. One attributes Trump's victory to changes in the norms of American politics – the decline of civility in political discourse (Dionne *et al.*, 2017). The other points to the declining fortunes of the white working class that might help someone like Trump (Hochschild, 2016; Vance, 2016). There is some truth to this too. But I argue that the long-term trends are far more complex than this. Trump rode to victory on a wave of public discontent that had been building since the 1970s – a wave consisting of four long-standing trends in American society that have gradually transformed American politics, and one big catalyst. The implications of his victory for public governance are becoming clear, and they aren't pretty. I'll get to that later but first let's see why Trump got elected.[2]

The economy

The first trend was economic. Nearly a half-century of wage stagnation, rising inequality, diminishing upward mobility, mounting private debt, and declining private sector employment, particularly in traditional manufacturing industries, is part of the story. During the late 1960s and early 1970s average wages grew about 2.5% annually. Since then, however, they barely budged. Between 1973 and 2000 median family income in the United States stagnated, inched up a bit for the next few years, but then stalled again (Mishel *et al.*, 2012, p. 179). This was a particularly tough problem during the latter half of the 1970s and early 1980s when, thanks to two oil shocks, inflation hit double digits only to be brought under control by a severe tightening of monetary policy that threw the economy into a recession.

To make ends meet the average American family had three options. One was work more hours, which many did (Leicht & Fitzgerald, 2014, p. 47). The second was to save less money, or spend money already saved. Beginning in 1975 the savings rate for average American families declined. By 2005, it had slipped below zero – people were spending down whatever savings they had (Rhee, 2013). The third option was borrowing money. From 1973 to 2011 average household debt rose from 67% to 119% of disposable personal income (Mishel *et al.* 2012, p. 405). All of this was necessary for the Baby Boom generation to maintain the same standard of living as their parent's generation. It's even harder for today's young adults. In short, people have had to run faster and faster just to stay in the same place. Many people were unable to do so, which is why American middle-class prosperity has become more of an illusion than a reality (Leicht & Fitzgerald, 2006; Temin, 2017).

Much of this was due to structural changes in the economy. Beginning in the early 1970s many traditional U.S. manufacturing jobs were exported from the Northeast and upper Midwest to the Sunbelt in the South and Southwest where unions were weaker or non-existent and wages and benefits were lower. Jobs were also either outsourced to foreign countries or eliminated entirely by technological improvements like computerisation and robotics. Downsizing became the watchword for many U.S. firms. Not everyone suffered equally. As the shift from manufacturing to a more service-oriented economy proceeded those who managed to get good educations or upgrade their skills, particularly in ways that made them technologically savvy, did alright. But those who did not, notably people from the working class or poor, fared worse (Bluestone & Harrison, 1988; Danziger & Gottschalk, 1997).

[2] The arguments in this paper are explored in more detail in Campbell (2018).

As a result, inequality increased. Wages grew significantly for those in the top 20% of the income distribution – and especially for the richest 1% – but not for most others. Between 1975 and 2010 the gini coefficient, a standard inequality measure, increased steadily from about .301 to .365 (OECD 2011). In short, the rich got richer, but many others were left behind. These trends were exacerbated by the 2008 financial crisis and Great Recession that followed.

All of this translated into two things of political importance. First, people's anxiety about their economic fortunes grew over the years, but especially following the 2008 financial crisis. Even during the run-up to the 2016 election – years after the crisis had subsided – the economy remained the leading issue in many Americans' minds. When asked what they thought the biggest problem facing the country was about 40% of Americans said it was the economy, with Republicans being more concerned than Democrats by a two-to-one margin (Gallup Polling 2016b). Second, and perhaps most important, the possibility of upward economic mobility deteriorated. As we shall see, this was an especially important reason people supported Trump (Mishel *et al.*, 2012, pp. 142–143; Williams, 2016).

Trump tapped the economic angst of millions of Americans and promised to bring traditional manufacturing jobs back to America in industries like steel, automobiles and coal mining. He threatened to renegotiate NAFTA arguing that it had destroyed millions of jobs. He pledged to get tough with China and Mexico to trade fairly with America. And he assured workers that by imposing import tariffs, cutting the corporate tax rate, and limiting immigration the economy would flourish, jobs would be restored, their wages would go up, and the possibility of upward mobility would be improved. People believed him.

Race and ethnicity

The second trend underpinning Trump's victory involved race and ethnicity. Trump pandered to the worst in people's concerns about race. He blamed African Americans for crime, drugs and other problems in our inner cities, even though problems like these are often more a matter of economic class than race. He blamed Mexican immigrants for taking jobs from Americans even though job loss had more to do with automation and corporate downsizing than immigration. In fact, most jobs taken by Mexicans are those that Americans don't want, and since the Great Recession more Mexicans have tried to leave the country than enter it (Massey 2015; Massey & Gentsch, 2014). Finally, Trump blamed Muslims for threatening people's safety and security even though, according to FBI crime statistics, the threat of Muslim terrorism was miniscule, especially compared to the number of home-grown terrorist attacks in school shootings and hate crimes. Since the 9/11 attacks the Muslim threat has been virtually non-existent. In the last 15 years, Muslim extremists have been responsible for 0.0005% of all murders in the United States. If we include those killed on 9/11 it's still only about one percent (Campbell 2018, p. 69–70; Kurzman 2017). Nevertheless, scapegoating minorities, particularly for people's economic problems, is a long-standing tradition in America. It has grown recently. And Trump was a pro at scapegoating – mixing nationalism, racism and promises of rejuvenating the American Dream into a politically toxic populist brew.

This resonated with Trump's supporters whose concerns about minority groups had been growing for years due to several things. First, Republicans like Richard Nixon pioneered the so-called Southern Strategy in the late 1960s and 1970s – an effort to convert white working-class voters to the Republican Party by hinting that their troubles, notably, a rising tax burden, were due to the Democratic Party's efforts to provide benefits to African Americans (Aistrup, 1996; U.S. Federal Bureau of Investigation 2017). This fuelled a white backlash against minorities and the policies allegedly designed to help them that eventually spread from the south to the north (McAdam & Kloos, 2014, p. 119 and chap. 3).

Second, the Hispanic population grew significantly during the 1990s and 2000s. The U.S. Census Bureau predicted that by 2044 non-Hispanic whites would be a minority in the country (Alba, 2015). This scared Republicans who began worrying that the country's electoral base was tilting more and more in favour of the Democrats. Most Hispanic immigrants and their children were relatively poor and uneducated – precisely the sort of people that tended historically to vote for Democrats (Waldman, 2016, chap. 12). Third, Trump pandered to public misperceptions about the relationship between race and crime. The average American believed that minorities were much more likely to engage in criminal activity than was the case (Ghandnoosh, 2014; Harrell *et al.*, 2014, tables 6 and 8; Ghandnoosh & Rovner, 2017). But Trump catered to their belief that minorities and immigrants were the ones responsible for crime in America.

Finally, was the immigration issue. On the Hispanic side, Trump expressed deep concern especially about Mexicans whom he claimed were streaming across the border creating criminal mayhem and taking jobs away from American workers. Trump's pitch about Hispanic immigrants was well placed. Many of his supporters believed his claims (Abrajano & Hajnal, 2015; Doherty, 2016). On the Muslim side, Trump constantly raised concerns about the dangers of radical Islamist terrorists coming to kill innocent Americans. Nearly as many Trump supporters believed that terrorism was a serious problem as believed that immigration was (Doherty, 2016). Furthermore, many of those who worried about Muslim immigration believed that Muslims wanted to destroy American values and replace them with Islamic Shari 'a law (Potok, 2017). The point is that there were persistent, and in some cases growing undercurrents of racial and ethnic animosity in America that Trump exploited for political advantage.

Ideology

The third trend that helped Trump win was the rise of conservative ideology – what some call neoliberalism and others call market fundamentalism. Since the 1980s, Americans and many of their leaders have fallen under the spell of conservative economic Sirens promising that the only route to a better world is through tax cuts, less government spending, and fewer regulations on business. This, it is said, will stimulate economic growth, create jobs, help raise wages, and eventually reduce government deficits and debt (Heilbroner & Milberg, 1995). Many also believe that God will help them through whatever personal economic troubles they may be having, but let's not get into that. There is precious little empirical evidence that the conservative mantra necessarily works as advertised or is the only key to success (Blyth, 2013). Nevertheless, Trump preached neoliberalism insofar as tax and spending cuts and deregulation were concerned. There were other aspects of his economic plan that did not fit the neoliberal model, but I'll return to them later.

Several things contributed to neoliberalism's ascendance. First, beginning in the mid-1970s a very conservative group of think tanks, notably the Heritage Foundation, were established in Washington and pushed neoliberal policies (Campbell & Pedersen, 2014, chap. 2). Second, conservatives gave millions of dollars to infuse higher education with neoliberal teachings (Cohen, 2008; MacLean, 2017; Teles, 2008). Third, corporations began lobbying for neoliberal policies (Domhoff, 2014, pp. 15–20; Temin, 2017, p. 18). Fourth, more and more private money flowed into politics thanks to changes in campaign finance laws. Most of the increase was from conservative sources outspending liberals two-to-one and pushing neoliberalism (Cillizza, 2014; Clawson, 1998; Mayer, 2016; Temin, 2017, pp. 79–80).Republicans outspent Democrats in 13 of the 16 presidential elections prior to 2016 (Bartels, 2016, p. 76). Fifth, key segments of the media began pushing the neoliberal agenda. By 2016 the ten most popular radio talk shows in America featured conservatives touting this view (Talkers, 2017). And, of course, Fox News, America's iconic conservative cable news channel, did too.

Much of Trump's economic plan was vintage neoliberalism. One reason so many voters believed this was that it was a familiar story that politicians had been preaching more and more for decades as they came to accept the neoliberal paradigm (Mudge, 2011). Another reason was that people were simply ignorant of the facts. According to a study from the University of Maryland, when it came to political issues like these Fox News viewers, the clear majority of whom were conservative and likely Trump supporters, were the most misinformed audience of any major news network (Brock *et al.*, 2012, pp. 13–14). A third reason was that Trump's plan was simple and easily understood, especially compared to Clinton's complicated economic plan. Trump lived by the KISS Principle – Keep It Simple, Stupid. He was a pro at packaging his message in a few simple thoughts that resonated with crowds. She was not (Allen & Parnes, 2017, p. 323; Stone, 2017, pp. 28–29, 265). Finally, he framed it all in ways that resonated with many people's suspicions of big government. Since the 1960s Americans had grown increasingly wary of big government, relative to big business or big labour, as a threat to the United States. In the mid-1960s about 48% of the public held this view but by 2014 it had reached 72%, often because people felt that the federal government threatened individual rights and freedoms. And among Republicans the numbers skyrocketed from 41% to 92% who believed this (Gallup Polling, 2015). Moreover, since 1970 more Americans felt that their taxes were too high rather than either too low or just about right (Gallup Polling, 2017a). The story was similar for government spending. Since the mid-1970s most Americans have almost always favoured small government with fewer services. The difference between Republicans and Democrats was pronounced and grew. By 2015, 80% of Republicans favoured smaller government as opposed to 31% of Democrats (Pew Research Center, 2015a). The reason was that the public worried that big government was wasteful, corrupt and inefficient. Again, the difference between Republicans and Democrats was substantial (75% vs 40%) (Pew Research Center, 2015a).

Two caveats are in order. First, neoliberalism is not a monolithic paradigm; it is a menu of policy options from which policymakers pick and choose (Campbell & Pedersen, 2001, pp. 269–273). One way in which Trump deviated from the neoliberal package was his pledge to revisit America's commitment to free trade agreements like NAFTA, the Trans-Pacific Partnership and the World Trade Organisation. Neoliberalism, after all, strongly favoured free trade.[3] How did he reconcile this contradiction? When it came to free trade Trump was particularly hard on China and Mexico. Remember that one of his complaints about NAFTA was that Mexico was taking American jobs. Rarely did he mention Canada, the third NAFTA partner. In other words, he justified his anti-NAFTA anti-free trade plan by blending issues of race and jobs. The same could be inferred from his remarks about trade with China, and by extension the rest of the South American and Asian participants in the Trans-Pacific Partnership. Similarly, Trump's anti-immigration policy was at odds with neoliberalism's belief in the benefits of the free movement of labour unfettered by government intervention. But, as we have seen, he also framed this issue in terms of race, protecting working and middle-class jobs, cracking down on crime, and protecting American values.[4] So Trump's commitment to neoliberalism was a mixed bag, but one that still appealed to his political base.

[3] Judis, 2016, chap. 3. Interestingly, except for the WTO Trump had very little criticism of the other Bretton Woods institutions – the International Monetary Fund and the World Bank – which laid the foundation for the post-war international economic order and eventually the Washington Consensus, itself a kind of international variant of neoliberalism.

[4] Trump also objected to NATO, or at least wanted its members to pay their fair share to support it. This had nothing to do with neoliberalism. It was a manifestation of his opposition to neoconservatism, which, among other things, advocated that America encourage "regime change" in countries it did not like. Neoconservatism should not be confused with neoliberalism.

Second, some might argue that Trump was not a neoliberal at all because he promised to protect Social Security, the government's old age pension program, and Medicare, the government's old age health insurance program. But virtually all American politicians, regardless of their economic philosophy, make such claims because these are enormously popular programs with the public. To threaten them publicly is almost always a sure-fire way to get voted out of office. Neoliberals like everyone else understand this. Moreover, some might argue that Trump was not a neoliberal because he promised not only to repeal Obama's health insurance program, the Affordable Care Act (Obamacare), but also to "replace it with something better." However, he never laid out a clear vision during the campaign about what he would replace it with and when he took office he left it up to Congress to devise a replacement, which they never did because they failed to replace it in the first place. Trump was serious about repealing Obamacare, as most neoliberals were, but not about replacing it.

My point is simply this. Trump espoused neoliberalism where he thought it would appeal to his base. His neoliberalism was inconsistent. But politicians are often inconsistent in this regard.[5] In fact, once he took office, his only major legislative victory was a massive neoliberal tax cut, which virtually every congressional Republican supported even though it dramatically increased the government's budget deficit. Trump and the neoliberals had long objected to deficits when Democrats generated them. Now they were suddenly silent, demonstrating again the inconsistency and political expediency of their views.

Political polarisation

The economic, racial and ideological trends I have been discussing flowed together contributing to a fourth trend – rising political polarisation. The ideological gap between Republicans and Democrats had been widening gradually for decades (Abramowitz, 2013; Campbell, 2016; Dionne, 2016; Edsall, 1984; Pew Research Center, 2014). By some accounts polarisation nowadays is greater than it has ever been since Reconstruction over a century ago (Campbell, 2016, p. 140, chaps. 1 and 5; Edsall, 2012, pp. 140–141). But why? First, since the 1970s, both political parties shifted to the right thanks in part to the rise of neoliberalism. But the Republicans embraced this ideology much more fervently than the Democrats and, as a result, moved farther to the right (Pew Research Center, 2015a).

Second, economic trends were at work. Organised labour had been a steadfast Democratic Party supporter since the 1930s. But beginning in the late 1950s the labour movement grew weaker thanks to the decline of manufacturing, the rise of outsourcing, and other economic trends. Hence, the unions' ability to support Democratic candidates favouring liberal working-class interests was waning (Frank, 2016, p. 51). At the same time, business interests grew more conservative politically because they faced increasing global competition and were less willing to accept expensive Democratic social programs paid for with high taxes (Edsall, 2012, pp. 69–72; 1985; Ferguson & Rogers, 1986; Judis, 2016, p. 43). The moderating political voice of America's business elite began to fade out (Mizruchi, 2013).

Racial trends also mattered. Thanks to the Southern Strategy and subsequent white backlash, by the early 2000s, conservative, white, married people viewing themselves as paying taxes to finance programs for underserving minorities

[5] Lots of Republican presidents have deviated from their conservative economic principles. Dwight Eisenhower built the interstate highway system – a massive government spending project. Richard Nixon famously declared that "we are all Keynesians now" and flirted with wage and price controls to check inflation. Ronald Reagan passed an enormous tax cut in his first year in office only to raise taxes later when the federal deficit ballooned. And Trump's inconsistency was on display again when, despite reports of repeated sexual philandering with porn stars and others, he courted Evangelical Christians with appeals to "family values" and by promising to appoint anti-abortion justices to the Supreme Court.

constituted much of the Republican Party's base. Meanwhile, racial and ethnic minorities as well as women, poor people dependent on government services, and comparatively liberal whites comprised the Democratic Party's base (Edsall, 2012, p. 41; Edsall & Edsall, 1992; Campbell, 2016, p. 158; Judis, 2016, pp. 36–37). Public opinion polls reflected this in questions about discrimination and supporting affirmative action. By 2014, there was a sharp partisan divide between Republicans and Democrats on this issue. Sixty-one percent of Republicans believed that discrimination against whites was at least as big a problem as was discrimination against blacks. Just as many Democrats disagreed. Tea Party Republicans felt particularly strong about this with 76% believing that whites were discriminated against at least as much as blacks. Moreover, white Republicans out-numbered white Democrats three-to-one in believing that too much attention is paid nowadays to issues of race (Johnson, 2017, p. 173; Pew Research Center, 2016). To some observers, "One of the central sources of continuity linking the Republican Party that emerged under Nixon in the late '60s and early '70s with the [Republican Party] of today is a sustained politics of racial reaction" (McAdam & Kloos, 2014, pp. 104, 254–255). In other words, the white backlash assumed a politically partisan flavor that further polarised the two parties.

Immigration helped fuel racial polarisation in politics too. By the late 1970s there was a growing population of new immigrants, which intensified the competition for college admissions, jobs, and promotions. Compounding the problem was that this was happening just as the economy was beginning to suffer from the effects of stagflation, globalisation, and rising international competition, so the supply of opportunities did not keep pace with increased demand. In particular, conservative white men saw themselves competing against minorities (Edsall, 2012, pp. 68–72). Both explicit and implicit anti-Hispanic and anti-black attitudes increased accordingly (Agiesta & Ross, 2012). Rising anti-Muslim sentiment also emerged in the wake of the 9/11 attacks. Racial and ethnic scapegoating was on the rise. The important point, however, is that all of this further exacerbated racial and ethnic polarisation between the Republican and Democratic Parties as the Democrats attracted a growing minority population and the Republicans became increasingly white (Abrajano & Hajnal, 2015; Abramowitz, 2013, chap 2).

To be sure, the roots of political polarisation are complex. A variety of institutional changes were also in play. These included new campaign finance laws, gerrymandering, attempts to prevent certain groups from voting under the guise of stopping voter fraud, expanding the whipping systems in Congress, and the advent of more contentious and partisan presidential primary systems. But the ideological, economic and racial trends I have discussed were crucial in elevating political polarisation to a very high level.

All of this set the stage for Donald Trump – a narcissistic pitchman extraordinaire. He promised to be the best job creator God ever gave America. He promised to build a wall along the southern border to keep out the Mexicans. He promised to crackdown on Muslim immigration to prevent terrorism. He promised to cut through the Gordian knot of polarisation in Washington by making deals no one else could make, and if that didn't work, launching a fusillade of executive orders to blast through the congressional logjam. He promised that his deal-making prowess would also help rewrite America's trade agreements, and repeal and replace Obamacare. In short, Trump promised to Make America Great Again, a core campaign slogan he repeated ad nausea framed in all sorts of nationalist, racist, xenophobic and occasionally sexist language. But there is still more to the story.

The catalyst: Barack Obama and gridlock

By 2008, the political differences between Democrats and Republicans had reached a tipping point. If the right catalyst came along, polarisation could turn into full-blown political gridlock. That

happened when Barack Obama became president. Republican congressional leaders immediately plotted to block anything he might propose in order to make him a one-term president (Franken, 2017, pp. 235–236, 246; Campbell, 2016, pp. 236–237). Then in the wake of the 2008 financial crisis he launched the most aggressive economic stimulus since the Great Depression, pumping nearly a trillion dollars into the economy – mostly to help Corporate America and Wall Street rather than Main Street. He also signed the Dodd-Frank Act, a major increase in government regulation of the financial services industry. And on top of that he pushed health care reform – Obamacare – through Congress. All of these were massive government interventions that ran against the neoliberal grain, consequently infuriating lots of Americans and giving rise to the conservative Tea Party Movement (Abramowitz, 2013, pp. 9–12; Tesler & Sears, 2010, 155–158; see also López 2014, pp. 205–207). Once the Tea Party's Freedom Caucus emerged in the House of Representatives, any significant policymaking ground to a virtual halt. Things were not much better in the Senate.

Policymaking gridlock set in. By the middle of the Obama presidency between 60% and 70% of important legislative proposals stalled in Congress (Binder, 2014). Administrative and judicial appointments were blocked and, as a result, the number of vacancies in the administration and judiciary soared during Obama's presidency, especially during his second term. Members on both sides of the aisle agreed that they had never seen things this bad, largely because the confirmation process had become extremely contentious (Shear, 2013). In his final year in office, the senate confirmed only 30% of Obama's nominees to the federal bench, much fewer than it did for the previous two-term presidents Reagan (66%), Clinton (50%), and Bush (68%), all of whom, like Obama, had to contend with Senate confirmation hearings controlled by the opposition party (Wheeler, 2016). Republican Senate Majority Leader Mitch McConnell's refusal to meet with let alone convene confirmation hearings for Merrick Garland, Obama's nominee to the Supreme Court, epitomised gridlock.

The use of the filibuster – a legislative tactic to block congressional policymaking – became more common too. Historically, it was used to kill legislative proposals that didn't have strong bipartisan support, but on Obama's watch McConnell used it to slow down or torpedo things that did have bipartisan support. The use of the filibuster skyrocketed during Obama's first year in office (Franken, 2017, pp. 229–230). The filibuster became a stealth weapon used by Republicans during the Obama years to obstruct even legislative matters that used to be routine and widely supported. This was unprecedented in the Senate's history (Mann & Ornstein, 2012, pp. 88–90).

It's no surprise, then, that people became fed up with Washington politics. Public trust and satisfaction with government declined significantly after 2001.[6] And the public's approval rating of Congress plummeted during that time from about 50% agreeing that it was doing a good job to just 17% by 2016 (Gallup Polling, 2016a). Obama's approval rating (48%) was lower on average than any president in over 30 years (Gallup Polling, 2017b).

Racism was partly responsible too. Obama's election itself was marked with racist overtones as people, including Trump and others in the so-called birther movement, charged that Obama was born in Africa and, therefore, ineligible for the presidency. According to Michael Tesler and David Sears' analysis, "Barack Obama's candidacy polarised the electorate by racial attitudes more strongly than had any previous presidential candidate in recent times." (Tesler & Sears, 2010, p. 9) Moreover, Tesler and Sears found significant spillover effects – all else being equal, any policy issue for which Obama took a public stand could become polarised according to people's racial predispositions. Post-election

[6] Concerns about having been misled by the George W. Bush administration after 9/11 about the grounds for starting wars in Iraq and Afghanistan contributed to public distrust.

surveys and panel data showed that the impact of racial resentment did not diminish once Obama took office (Tesler & Sears, 2010, pp. 92–93). One indication was that the highly racialised voting in the 2008 presidential election was repeated four years later (Johnson, 2017). Another indication was that 38 states eventually introduced legislation that many people believed was intended to inhibit voting by minority groups (López, 2014, p. 160). Finally, over the course of Obama's presidency the percentage of all Americans who believed that racism was a big problem in their country doubled from 26% to 50%. Nearly three-quarters of African Americans and more than half of Hispanics agreed (Pew Research Center, 2015b).

The broader point, however, is that Trump pandered to the problems of polarisation and gridlock just like he pandered to economic, racial and ideological trends. First, he told one reporter, "I'm going to unify. This country is totally divided. Barack Obama has divided this country unbelievably. And it's all, it's all hatred, what can I tell you. I've never seen anything like it…I will be a great unifier for our country." (Diamond, 2015) Second, he promised to "drain the swamp" and utilise executive orders to cut the Gordian knot of gridlock. Third, he occasionally resurrected the birther issue, which most people thought had been laid to rest but that helped energise the Tea Party Movement. Fourth, he attacked Obama's handling of the financial crisis. Despite his support for the stimulus when it was first launched, once he announced his candidacy in 2015 his staff denied it. Fifth, he lambasted Dodd-Frank for making it "impossible for bankers to function," adding that this made it difficult for Main Street to get the loans it needed to create jobs (Fortune Magazine, 2016). He promised to get rid of it. Finally, as noted earlier, he promised to "repeal and replace" Obamacare.

The rise of Donald Trump

Exit polling by CNN shows that Trump's campaign promises resonated with the fears and anxieties of the American public, which stemmed from all the things I have described (CNN, 2016). His campaign represented the tip of an iceberg that had been developing for decades. Consider the economic trends first. Roughly two-thirds of people who worried that the economy was in poor shape, and two-thirds who believed that international trade takes away American jobs voted for Trump. So did about two-thirds of those who felt that life for the next generation would be worse than today.

Trump pandered effectively to people's racial concerns too. He won 58% of the white vote while Clinton won a whopping 74% of the non-white vote. People who frowned on racial diversity in America were much more likely to vote for Trump than people who looked kindly upon it. Trump's disparaging comments about African Americans certainly contributed to his loss of the African-American and Latino vote – he won only 8% and 29% of their votes, respectively. Finally, 84% of those who felt that undocumented immigrants working in the United States should be deported voted for Trump.

Ideas and ideology were important too. Trump won 81% of the conservative vote – people who believed in limited government and the free market. His promise to overcome political polarisation and gridlock resonated with voters too. Fifty-eight percent of those who felt dissatisfied or angry with the federal government went for Trump while 76% of those who felt enthusiastic or satisfied with it supported Clinton.

Voters' dissatisfaction with Obama's presidency was evident too. An overwhelming 90% of those disapproving of Obama's presidency voted for Trump. And 83% of those who believed that Obamacare had gone too far supported Trump. Lingering concerns about the financial crisis also came into play. Seventy-eight percent of those worried that the financial situation of the country was worse than it was four years ago voted for Trump.

In short, Trump took advantage of economic, racial, ideological and political trends that had

been growing for decades – a perfect storm that increased the possibility that someone like him could come out of nowhere and capture the White House. Some Americans who voted for him believed what he said; others saw him as an alternative to the failed political establishment; and the rest hoped that his election would provide them with entrée to power and influence in Washington.

Implications for public governance

Public governance in America has been upended by all of this. Trump's victory institutionalised a new form of politics in America. Traditionally, American politics pitted left-wing liberals, who favoured more taxes, government spending and regulation, against right-wing conservatives, who favoured the opposite. But Trump's contempt for free trade, his desire to restrict immigration, and his promise to step away from multilateral treaties signalled the arrival of a new political cleavage – those for and against globalisation. This threw a monkey wrench into both major political parties. Now the Republican and Democratic parties are split over globalisation issues too. Notably, the Sanders wing of the Democratic Party favours protectionism, but the Clinton wing does not. On the Republican side, the Trump wing favours protectionism, but the more traditional and moderate wing does not. Suddenly, politics has become more complicated in ways that exacerbate polarisation and gridlock.

Trump's victory has also amplified a movement away from fact-based politics and policymaking. Trump set a new low in American politics for distorting the truth and lying. He lied repeatedly on the campaign trail, making false statements over 70% of the time according to reputable fact checkers. Once in office, he continued to lie, notably accusing, without a shred of evidence, Barack Obama of tapping his phones during the campaign. The Washington Post calculated that since taking office he has lied publicly on average 6.5 times per day, often in his numerous online tweets. His inability to accept the facts is remarkable. For example, he has repeatedly denied that the Russians interfered in the 2016 election, although all his national intelligence agencies and congressional leaders on both sides of the aisle agree that they did. The problem is twofold. One is that Trump's disregard for the truth may very well exacerbate the public's distrust in its political leaders. The other is that if we can't agree on even the most basic facts, we are doomed to policymaking based purely on ideology and the uninformed whims of policymakers. This is very dangerous. Reflecting on the Treaty of Versailles just after the First World War, John Maynard Keynes, the brilliant twentieth-century economist, warned that fact-less, uninformed policymaking can lead to disaster. He was right. That ill-conceived treaty helped foment the Second World War (Keynes, 1920).What does this mean for America's position in the world today? A detailed response is well beyond the scope of this paper, but a few words are in order. Trump's disregard for the facts about climate change contributed to his decision to pull the United States out of the Paris Climate Agreement. His disregard for the facts about free trade contributed to his decision to pull out of the Trans-Pacific Partnership. It also contributed to his move to impose tariffs on China, Mexico, Canada, and the European Union. Coupled with his knack for insulting foreign leaders, friend and foe alike, not to mention his threats to disregard America's commitments to NATO and other multilateral agreements, America's position of world leadership is being badly shaken. Germany's Chancellor, Angela Merkel, was blunt about this following her first major G7 summit meeting with Trump when she said that Europe couldn't count on the United States anymore and "must really take our destiny into our own hands." Since the Second World War the United States has played a pivotal role ensuring a modicum of stability in the world. Under Trump it appears that America is abdicating that leadership role. Trump's willingness to start trade wars is just one indication of the destabilising effect his presidency is having. I fear that there will be more.

In this regard, public governance at the international level has been upended too. And the situation

has been made even more unstable thanks to Brexit and the rise of right-wing populism in Poland, Hungary, France, Germany, Denmark and many other European countries, much of which stemmed from trends similar to those we have seen in the United States – economic restructuring, immigration, racism, xenophobia, political polarisation and the tilt toward neoliberalism. Consider the populist insurgence in Britain. Brexit was largely a backlash against the European Union's open borders, especially for the free movement of people – allegedly immigrants who were taking jobs away from British workers. Such sentiments were strongest in the deindustrialised areas outside of London. Similarly, in Denmark, anti-immigrant populism found its most fertile soil in the rural areas of Western Jutland and among workers who feared that immigrants were, again, taking their jobs and sponging off the generous Danish welfare state. The parallels between these countries and Trump's America are striking and resonate with trends others who have studied populist insurgencies have identified (Judis, 2016; Levitsky & Ziblatt, 2018). Structural trends like these provide fertile soil for the growth of extremist politics, populism, nationalism and demagoguery that can rip a country apart and set them on collision courses with each other.

Considering all this, it is easy to believe that the political foundations of the post-war international order have been shaken. Hopefully, they will not crumble. If they do, as Keynes might have warned, it could be disastrous.

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The evolving impact of labour markets on monetary policy

Abstract

Objectives: The aim of this paper is to address the cycle from monetary policy becoming the main instrument of macroeconomic stabilisation to the current unexpected decline in its effectiveness.

Research Design and Methods: This article analyses how preventing the risk of wage-price spirals unwinding became the main task of central banks. Such a perception of monetary policy role was a natural consequence of the Great Inflation of the 1970s and the substantial costs of disinflation of the 1980s. Then this paper highlights the causes behind the recent unexpected emergence of persistently low inflation. Among the most important causes of this were structural changes which took place also in labour markets, being the outcome of the twilight of traditional manufacturing and increasing globalisation.

Findings: The structural weakening of the bargaining position labour creates situation in which the period when monetary policy was focused on preventing wage-price spirals has ended. If advanced economies are entering a long period of low inflation and low interest rates, it will necessitate a reformulation of the role that central banks play in stabilisation policies.

Recommendation: This paper postulates that central banks should acquire a pivotal role in the macroprudential policy. The main argument is that the independence of central banks, which they obtained when fighting inflation, would increase the effectiveness of the macro-prudential policy.

Contribution: Usually success in lowering and stabilising inflation is attributed mainly to the changes in the way in which central banks have been conducting their monetary policy since the early 1980s. This article highlights the fact that the role which was played in this process by the substantial weakening of the labour bargaining position is still underappreciated.

Article Classification: Theoretical article. Original literature review

Keywords: monetary policy, wage-price spirals, labour bargaining power

JEL Classification: E24, E52, E61

Introduction

Central banking is three hundred years old. However, monetary policy is much younger; its beginnings are connected with the Great Depression of the 1930s, when central banks' monetary easing was supporting fiscal policy in pulling economies out of deflation and stagnation. Only the inflationary

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pressures of the second half of the 1960s and the Great Inflation of the 1970s elevated monetary policy to the role of the main tool of stabilisation policy.

Central banks gained prominence during the period of Great Moderation (from the mid-1980s to the mid-2000s), when they successfully stabilised both inflation and economic growth. The unexpectedly difficult period for central banks began after the Great Recession which followed the global banking crisis of 2007–2009. The recovery was surprisingly weak and brought a long period of atypically low inflation and low interest rates. Hitting the interest rate zero lower bound made monetary policy problematic. If the future brings a long period of persistently low inflation and low interest rates, central banks may face a challenge of reformulating the role they play in stabilisation policy.

What makes the scenario of protractedly low inflation probable are the forces of globalisation (international price competition and the outsourcing of production to low-cost countries), technological change (augmenting the role of investing in intangibles), the aging of societies (decreasing growth potential), and structural change in labour markets (reducing wage shares).

The goal of this paper is not to analyse all of those factors. Its focus is limited to demonstrating that the cycle from monetary policy becoming the key element of stabilisation policy to the recent unexpected erosion of its effectiveness mirrors broadly the structural change which has taken place in labour markets, i.e. the evolution from the post-war substantial strengthening of labour's negotiating power, which facilitated the advent of the Great Inflation in the 1970s, to the subsequent substantial weakening of the bargaining position of labour, which produced the recent surprisingly low wage growth in advanced economies.

The importance of labour markets for monetary policy is illustrated by the fact that since the Great Inflation of the 1970s central banks have been perceived as institutions which are required to contain the risk of the wage-price spiral unwinding, which might accelerate inflation. While such a perception of central banking was dominant till the mid-2000s, the bargaining power of labour has been declining steadily since the 1980s, which reduced the risk of wage inflation. The spectacular symptom of this change was that during the recent economic recovery, after the Great Recession caused by global banking crisis of 2007–2009, the rate of growth in wages stayed unexpectedly low despite the fall of unemployment rates to the lowest levels in history.

The remainder of this paper is organised as follows: section 2 summarises briefly the evolution of monetary policy until the 1970s, when the two oil crises and the subsequent stagflation put the labour market in the centre of thinking on the role of central banking. Section 3 highlights the structural changes which caused the flattening of the Phillips curve, i.e. the weakening of the impact which changes in unemployment exert on the rate of wage growth. Section 4 analyses the Japan's experiences over the last three decades, where the changes on labour markets played an important role. Section 5 underlines the factors which increase the likelihood that developed countries may enter a period of persistently low inflation and section 6 outlines some policy conclusion.

The emergence of wage-price spiral risk

Under the gold standard (1870–1914) central banks did not conduct monetary policy in its modern sense. They were rather managing the gold standard system instead, as it was believed that the functioning thereof automatically secured price stability. Central banks were changing interest rates rather to trigger short-term international capital flows – in order to stabilise their gold reserves and the money supply – than to impact directly the decisions of economic agents on borrowing, spending or investing. It was believed that stabilising gold reserves was sufficient to stabilise both money supply and inflation.

The smooth functioning of the gold standard system was facilitated by the fortunate timing

of successive discoveries of gold which made the rate of growth in gold and money supply more or less adjusted to the rate of growth in the demand for money consistent with the long-term growth of GDP (Cassel, 1936). Additionally, the absence of exchange rate risk facilitated long-term capital flows from surplus to deficit countries, which kept their balance of payments in equilibrium. This enabled a uniform rate of growth in gold reserves in all countries participating in the system. Under such favourable conditions it was sufficient for central banks to hike (or cut) interest rates in order to trigger short-term capital inflow (or outflow) when it was necessary to stabilise gold reserves.

The period when central banks started to conduct monetary policy in the modern sense – using interest rate policy directly to manage aggregate demand – was the Great Depression of the 1930s. However, in that period of massive unemployment and depressed expectations even cutting interest rates to zero could not be sufficient to bring about reflation. Consequently, at that time, expansionary monetary policy was only supporting fiscal expansion being the main tool for pulling economies out of stagnation (Koo, 2016).

Only after World War II, during the period of long and strong recovery in the 1950s and the 1960s, did monetary policy steadily gain importance due to the mounting inflationary pressures. Until the mid-1960s central banks were efficiently stabilising inflation in spite of the fact that they were dependent on governments. The factor facilitating the effectiveness of monetary policy was the Bretton Woods system of fixed exchange rates. Governments tended to accept central banks interest rates hikes when an excessive domestic demand was producing the threat of a substantial widening of the trade deficit and a subsequent currency devaluation.[1]

In the 1950s and 1960s the task of stabilising inflation – despite the strong demand growth – was aided by the high rate of productivity growth. The supply of goods and services was catching up with the growth in wages. In Europe and Japan, the rise in productivity was at that time higher than in the US, due to the massive inflow of American direct investments which enabled the narrowing of the technological and managerial gap between the US and other developed economies (Bergeaud *et al.*, 2014)

In the mid-1960s, however, this strong economic growth brought about increasing inflationary pressures. Initially it was believed that central banks could cope with this situation relatively easily. Due to the historical stability of the Phillips curve – illustrating the relationship between the rate of unemployment and the rate of growth in wages (Phillips, 1958) – central banks believed that there was a stable trade-off between the rate of GDP growth and wage inflation and that they could choose between different combinations of both.

Milton Friedman and Edmund Phelps warned that this trade-off would not be stable if central banks tried to exploit it. They argued that central banks attempting to reduce the rate of unemployment to below its natural level, by way of monetary expansion, would lead to a temporary growth in employment at the cost of a permanent rise in inflation, due to the increased inflationary expectations (Phelps, 1967; Friedman, 1968).

Friedman's assumption was that central banks are inflation biased, i.e. they tend to increase money supply in order to engineer an illusion of money – a situation in which workers take nominal growth in wages for real, which induces them to enter labour market or work longer hours. The source of the money illusion is the adaptive character of inflationary expectations. Employees use the initial rate of inflation to assess the real growth in their wages. However, with the passage of time they realise that inflation was rising alongside with wages. This induces workers to leave the labour market or reduce their working hours,

[1] Actually, in the 1950s, the Federal Reserve Bank (for example) was conducting its monetary policy in a manner which was almost the same as in the 1990s, when central banks adopted an inflation targeting strategy (Romer & Romer, 2002).

which ends the short-term recovery engineered by the central bank's monetary expansion.

Friedman's main conclusion was that the long-term Phillips curve is vertical, because central banks' renewed attempts to accelerate economic growth through monetary expansion tend to push up inflationary expectations while unemployment constantly returns – after each brief recovery – to its natural rate. Consequently, Friedman's proposal was to impose a policy rule requiring central banks to increase money supply at a stable rate, adjusted to the rate of growth in the demand for money consistent with the potential (long-term) rate of GDP growth (Friedman, 1968). Hence Friedman's general message was that central banks should control money supply to shield the economy from wage-price spirals.

In the 1970s such spirals did emerge in the advanced economies, which led to the Great Inflation, the highest in peacetime. However, the wage-price spirals were not triggered by attempts of central banks to accelerate money supply and GDP growth. They were put in motion by two sharp rises in oil prices: the first triggered by the Yom Kippur War in 1974 and the second prompted by the Iranian Islamic revolution in 1979. Additionally, the oil shocks coincided with a sharp increase in food prices. The resulting sharp rise in the cost of living led to wage demands at a time when trade unions were still strong, due to the dominance of traditional industries characterised by the concentration of production and mass employment.

In the 1970s the unwinding of the wage-price spirals was not effectively resisted either by central banks or corporations.

Central banks did not tighten their monetary policy enough to suppress the wage-price spirals, because they were dependent on governments, which were worrying that an excessive monetary tightening might cause a sharp rise in unemployment (Tobin, 1982).[2] Some economists argued that the rising inflation resulted mainly from quasi-oligopolistic pricing of large corporations and the bargaining power of trade unions, which was strong at that time. Therefore they advocated price controls (introduced in the US in the early 1970s) and incomes policy rather than monetary policy tightening to directly contain inflationary pressures (Nelson & Schwartz, 2007).

Corporations were succumbing to wage demands due to the strength of trade unions. Additionally, in the 1970s firms could still afford to raise the prices of their products, as they were not yet exposed to the strong pressure of international price competition. They also, rightly, assumed that central banks would conduct accommodative monetary policy allowing for a rise in prices to shield (at least partially) corporations' profits from being squeezed by the increasing labour costs.

The accommodative monetary policy of central banks in the 1970s did not secure economic growth. The uncertainty caused by industrial conflict, rising inflation, profit squeezing and productivity slowdown led to the stagflation: high inflation combined with economic stagnation (Glyn, 2006). In the 1970s the long-term Phillips curve in the UK indeed became vertical, as predicted by Friedman. Inflation grew from 5% to 25% while the rate of unemployment remained almost unchanged (Bean, 2006).

The weakening of the bargaining power of labour

The experiences with stagflation in the 1970s brought about a change in thinking about the role of monetary policy. The monetarist views prevailed: central banks adopted the strategy of controlling money supply. The goal was to stabilise medium and long-term inflationary expectations, the main factor feeding the wage-price spirals.

[2] The two exceptions were the Bundesbank and the Swiss National Bank which, being at that time independent from national governments, could tighten their monetary policy sufficiently to tame wage-price spirals.

The belief that central banks should focus on stabilising inflation was strengthened by the rational expectations revolution. Assuming that expectations are rational led to the conclusion that the trade-off between inflation and economic growth was very small (Lucas, 1972) or non-existent, due to time inconsistency of expectations (Kydland & Prescott, 1977). This augmented Friedman's conclusion that central banks should invest in their credibility as institutions genuinely committed to stabilising inflation. Credibility in achieving the announced target was perceived as the main asset of central banks.

To enable central banks to be effective at stabilising inflation they were given independence from governments. The main argument for doing that was the concept of the vertical long-term Phillips curve (Goodhart, 2017), which amounted to a message for the political class that stabilising inflation by central banks would not harm medium- and long-term economic growth prospects. The political consent for giving central banks independence was also possible due to the exceptionally low level of public debt in the 1990s, which made governments less concerned that potential interest rate hikes might significantly increase the costs of servicing public debt (Goodhart & Lastra, 2018)

The monetary policy tightening in the 1980s did reduce inflation in the developed economies, although initially that was achieved at the cost of substantially increased unemployment and decreased rates of GDP growth (Wojtyna, 2004). The important cause of the high costs of disinflation was the rigidity of inflationary expectations, which prevented inflation and wages from falling in line with the reduced rates of growth in money supply. The resulting weakening of the effective demand squeezed corporate profits, investment and employment.[3]

Despite the significant costs, the disinflation of the 1980s was a spectacular success. Central banks managed to stabilise inflation expectations and gained credibility as institutions genuinely committed to stabilising prices. The success of disinflation forced (in a sense) central banks to abandon monetary targeting and to adopt an inflation targeting strategy, because the lower inflation was the weaker was the impact of money supply on the rate of growth in prices (De Grauwe & Grimaldi, 2001).[4]

Especially during the period of the Great Moderation (from the mid-1980s to the mid-2000s), central banks became highly respected for stabilising both inflation and economic growth. Occasionally there were violent currency and banking crises, followed by sharp recessions, but those occurred in the emerging economies (e.g. the Mexican Crisis in 1994 and the Asian crisis in 1997). Therefore it was believed that such crises were not possible in the advanced economies, with their highly developed financial systems.

While an important source of central banks' success in reducing and stabilising inflation was undoubtedly their much-improved credibility, there were also the structural changes in economies and labour markets which contributed greatly to the disinflation.

Behind the flattening of the Phillips curve was globalisation, with its sharply intensified price competition. Corporations could not afford to raise wages and prices without exposing themselves to the risk of losing their markets. The massive

[3] Had expectations been rational (as claimed by the New Keynesian Synthesis), there should not have been significant costs of disinflation, as prices and wages would have adjusted fully to the monetary policy tightening by central banks. The significant costs of disinflation in the 1980s illustrate that economic agents' expectations are not rational but adaptive, as was assumed by Milton Friedman.

[4] The additional factor forcing central banks to abandon monetary targeting was the development of financial markets. Corporations could keep their money holdings not only in the form of traditional bank deposits but also in (for example) the form of treasury bills or deposits held on the repo markets. Due to such changes monetary aggregates ceased to represent accurately the money supply. This is why the Governor of the Bank of Canada said "We didn't abandon monetary aggregates, they abandoned us" (Mishkin, 2000).

outsourcing of production to China and other emerging economies substantially weakened the bargaining power of labour in advanced economies.

Among the structural factors which also contributed to the flattening of the Phillips curve was the twilight of traditional manufacturing characterised by mass employment and production concentration, which had created a favourable environment for strong trade unions. In the post-industrial economies, dominated by the service sectors, the density of trade unions was falling sharply. The weakening of the bargaining position of labour was accelerated by the legal changes resulting from the firmly held belief that trade unions were overly powerful (Heller, 1976).

The declining bargaining position of trade unions contributed to the emergence of the productivity-wage gap from the 1970s onwards, when the rate of growth in wages started to lag behind the rate of productivity growth (Zawodny, 1999), causing a steady decrease in the share of labour in GDP, particularly in advanced economies (Ciminelli *et al.*, 2018; IMF, 2017; OECD, 2015). The share of labour has been falling more than might be attributed to skill-biased technological change (Onaran *et al.*, 2015).

All this resulted in a fundamental change to the labour markets. The risk that wage-price spirals might lead to a substantial acceleration of inflation was considerably reduced. However, despite the flattening of the Phillips curve, central banks were still perceived as institutions which were required to be ready to hike interest rates in order to prevent the developing of wage-price spirals and to shield the economy from the potentially significant costs of disinflation. Such an approach to monetary policy was perceived as the best practice in central banking until the outbreak of the global banking crisis. A stark illustration is the ECB's decision to hike interest rates in 2008 in spite of the fact that the eurozone was entering a recession (Hausner & Sławiński, 2018).

After the global banking crisis of 2007–2008, followed by the Great Recession, interest rates hit the zero lower bound and monetary policy became much less effective. During the subsequent recovery central banks faced the 'puzzle' of the lack of inflation (Coibion & Gorodnichenko, 2015; Tarullo, 2017). Such a course of events was unexpected. Under the policy of *forward guidance*, central banks conditioned their interest rate hikes on unemployment falling to some predetermined levels, but they delayed such hikes because the projected inflation stayed usually well below the central banks' targets (Bednarczyk, 2016).

For central banks the important question is what their role will be if the future brings a period of persistently low inflation and low interest rates. To some extent the answer can be derived from Japan's experiences with chronic stagnation after the crash of its stock and mortgage markets in 1990.

The role of the labour market in Japanese stagnation

Initially economists assumed that the long Japanese stagnation resulted from a series of policy mistakes (Posen, 2012). However, due to the unexpected length and depth of the Great Recession, following the outbreak of the global banking crises of 200–08, economists changed their views on Japanese stagnation. They started to focus on the similarities between developments in Japan and other advanced economies. The main similarity was the consequences of the long deleveraging period (of net-debt repayments) forcing households and firms to repay their mortgage debts at the cost of reducing their current expenditures, which pushed a number of economies into balance sheet recessions.

In Japan the resulting protracted stagnation created a necessity for fiscal expansion. Someone had to borrow and spend the savings which were accumulating in banks as the result of the net debt repayments, otherwise the Japanese economy would have fallen into a deep and prolonged recession. The protracted stagnation and the entrenched pessimistic expectations made the government

the only candidate willing and able to recycle the excess of savings into the economy.

It is worth also underlining that fiscal expansion contributed to money creation in the period when banking crisis halted the credit and deposit money creation in commercial banks. Without fiscal expansion money supply would have shrunk, as during the deleveraging period more deposit money was destroyed due to the net loan repayments than created due to the new bank lending (McLeay *et al.*, 2014). To the extent to which the government was using the borrowed savings to fund its current spending, it was effectively converting those savings into money and replenishing households' and firms' money balances[5]. The scale of the fiscal expansion is illustrated by the fact that in the 1990s the budget balance in Japan went from a 2% surplus to an 8% deficit (Akram, 2016).[6]

However, while the unprecedented fiscal expansion did save the Japanese economy from falling into a deep and protracted recession, it did not shield it from deflation, which added to the chronic weakness of the domestic demand. Falling prices incentivised households to postpone their spending on durable goods. Deflation pushed up real interest rates (despite their zero nominal level), which induced firms to postpone investments. In accordance with Irving Fisher's hypothesis, deflation made debt repayment increasingly costly, as nominal wages were falling while interest and principal payments stayed unchanged (Fisher, 1933).

Hitting the interest rate zero lower bound made conventional monetary policy ineffective. Therefore the Bank of Japan (BoJ) decided to follow Ben Bernanke's advice by launching a quantitative easing programme (QE) as a substitute for interest rate cuts (Bernanke, 1999). In 2001 the BoJ started to purchase treasury bonds, which kept long-term interest rates at a low level. The other positive outcome of the BoJ's QE was an increase in the liquid reserves of commercial banks, which helped them to weather the difficult period after taking substantial losses during the Asian crisis of the late 1990s (Schaltegger & Weder, 2013).

The QE programme was phased out in 2005 when the global recovery also embraced Japan. However, the global financial crisis of 2007–2008, followed by the Great Recession, forced the BoJ to relaunch its QE programme. The qualitative change took place in 2013, when the BoJ started to buy much more treasury bonds than were issued by the government. This indicated that the Japanese authorities decided to withdraw a large part of the public debt from the market.

It is not often recognised that QE programmes are *de facto* a tool for reducing public debt. They effectively convert treasury bonds, which are in the assets of a central bank, into zero-coupon perpetuities bearing no cost for the government. The reason is that central banks are required to pay the seigniorage to their governments. That way they give back interest payments to the budget. Additionally, central banks also return to the budget principal payments, by reinvesting them in new government bond issuances (Paris & Wyplosz, 2014; Buttiglione *et al.*, 2014; Sławiński, 2016).[7] It is highly unlikely that in the foreseeable future the BoJ will start to sell the treasury paper from its assets, as that might cause a rise in long-term

[5] This was in fact in line with Milton Friedman's reasoning when he proposed creating a budget which would be balanced when the economy was growing at a potential rate. He proposed that when the economy grew above its potential, the budget surplus should be invested in the capital market in order to eliminate the excess of money. Analogously he proposed that when the economy grew at below its potential the government should use the savings invested on the capital market to finance its deficit spending. Thus this was nothing other than converting savings into money in order to replenish money supply and to adjust it to the demand for money consistent with the potential rate of growth (Friedman, 1948).

[6] Some authors offer a somewhat different assessment of the Japanese experiences (Ciżkowicz *et al.*, 2015).

[7] The Federal Reserve Bank officially phased out its QE programme of purchasing treasury paper in 2014. Nonetheless, in 2017 it decided to reduce the reinvesting of principal payments.

interest rates harming the protractedly weak growth in Japan.

The worrying feature of the Japanese experiences was that despite highly expansionary fiscal policies and the unprecedentedly large scale of the QE programmes the economic recovery was disappointingly weak. It started to be realised that the important reason for the protracted weakness of domestic demand was the unexpectedly low growth in wages in spite of unemployment falling to its historically lowest levels. The main reason behind that phenomenon was the structural changes on the Japanese labour market, especially the shift towards non-regular jobs.

The incidence of non-regular jobs in different branches of the Japanese service sector is, on average, well above 50% (Sommer, 2009). The overall share of part-time workers in Japan grew from 15% in 1990 to 30% in 2014 (Kuroda, 2015). Japanese workers' shrinking bargaining power coincided with a fall in unionisation from 25% in 1991 to 18% in 2014 and the sharp decline in the average number of strikes from 707 per year in the 1980 to 63 in the 2000s (Porcellachia, 2016).

The IMF suggests that the recipe for overcoming wage stagnation in Japan is through strengthening the bargaining power of labour and increasing a minimum wage (Arbatli *et al.*, 2016). Blanchard and Posen recommended reintroducing wage indexation as the sharp weakening of the bargaining power of labour minimised in Japan the risk of the emergence of wage-price spirals, such as they were in the 1970s (Blanchard & Posen, 2015; Posen, 2015).

The shift toward non-regular jobs is present also in other advanced economies: for example, the share of non-regular jobs in the European Union is above 40% (European Parliament, 2016). That is why in 2017 the total number of hours worked in the Eurozone was still below its pre-crisis level. This was, in turn, the reason for slow wage growth despite the relatively strong recovery (European Commission, 2018).

Discussion

The weakening of the bargaining position of labour will probably continue, due to the technological change (Vandaele, 2018) and the still dominant view supportive for further reducing job protection and cutting unemployment benefits (Ciminelli *et al.*, 2018; OECD, 2017). While this may increase labour mobility and the flexibility of economies, the cost will be a further decrease in the bargaining power of labour, especially in the context of globalising service markets (Szafranek & Hałka, 2018).

The structural changes in the labour market are an important factor but not the only factor making probable a scenario that advanced economies may enter a period of persistently low inflation and low interest rates. During the recovery after the Great Recession Larry Summers returned to the concept of secular stagnation which had been put forward by Alvin Hansen, who had emphasised in the late 1930s that the decline in population growth and the slowdown in technological progress might have significantly hampered the rate of economic growth in the United States (Hansen, 1939). Larry Summers underlined that the rate of growth in the mid-2000s was mediocre, despite the lending boom on the mortgage market. He interpreted such a situation as a symptom of structural deficiency of demand mirrored by the excess savings in corporate sector (Summers, 2014). Empirical research confirmed that the aging population (Gagnon *et al.*, 2016) and declining business dynamism (Decker *et al.*, 2016) have been lowering the rate of economic growth after the Great Recession.

Furthermore, it turned out that the chronic excess of savings in corporate sectors (reflecting the prolonged paucity of investment) has been present in advanced economies since the early 2000s (Gruber *et al.*, 2015) and has contributed to the sharp and permanent fall in natural interest rates and potential rates of growth in advanced economies (Holston *et al.*, 2016). In Japan the excess of savings in the corporate sector and a large negative GDP gap can be traced as early

as the 1970s (Fukao *et al.*, 2014). Robert Gordon underlines the supply-side factors of the persistently lower GDP growth in the US since the 1970s. Among the most important headwinds to growth he enumerates the decline in the rate of productivity growth, the slowing contribution of university education, and income inequality – being a result of changes which have taken place in the labour market (Gordon, 2016 & 2014).

Conclusions

If the fall of the share of labour (OECD, 2015) and other structural factors bring about a protracted period of low inflation and low interest rates, central banks will have much less scope for conducting their monetary policy effectively. They will have to reformulate their role in stabilisation policies.

This will reopen the issue of a closer co-ordination of monetary and fiscal policies especially in the period of greatly increased levels of public debts in many advanced economies. The challenge might be again fiscal dominance (Blommestein & Turner, 2012). During periods of prolonged stagnation such fiscal dominance may acquire strong forms, as was seen during the protracted stagnation in Japan after 1990. We may witness a return to the use of QE programmes as tools of public debt reduction.

The global financial crisis of 2007–2009 forced central banks to revise some crucial assumptions adopted in their general equilibrium models. They cannot afford to focus only on price stability, as was the case during the Great Moderation (Lucas, 2003). Nowadays central banks have to take into consideration the fact that economies may implode during a serious financial crisis (Blanchard & Summers, 2017). This creates the need to use macroprudential policy as a tool for reducing systemic risk.

Some economists worry that this might compromise central banks independence (Ball *et al.*, 2018). Such concerns are partially justified. By taking responsibility for regulatory mistakes central banks may put at risk their credibility. Nonetheless, even the short recent experiences with conducting macroprudential policy shows that when supervisory authorities are dominated by government entities they tend to delay tightening their polices, even during evident credit booms. Under the circumstances central banks should play a decisive role in conducting macroprudential policy to shield it from political cycles (Borio, 2015). Therefore central banks should use their independence and credibility – the assets they won when fighting inflation – as weapons for macroprudential policy, the importance of which may rise during a period of persistently low inflation.

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A hybrid version of well-being: An attempt at operationalisation[1]

Abstract

Objectives: This paper aims to investigate the possibility of constructing a hybrid version of well-being and making an attempt at its operationalisation.

Research Design & Methods: The theoretical framework is based on the capability approach of Amartya Sen and Martha Nussbaum, while the empirical part of the paper refers to a fuzzy set theory.

Findings: We propose three measures of hybrid well-being, referring to (1) the minimum formula, (2) a mobility index, and (3) the concept of internalities.

Implications / Recommendations: We are convinced that it is not only possible to create a philosophically informed measure of well-being, but also that this kind of measure can be crucial in the context of public policy due to its sensitivity to autonomy and adaptation problems.

Contribution / Value Added: Findings of this research can be seen as an attempt to merge philosophical investigation with economics theories and applications.

Article Classification: Conceptual article

Keywords: well-being, hybrid well-being, capability approach, autonomy, adaptation

JEL classification: I31, I39

Introduction

According to Valerie Tiberius (2014, 71110) "Well-being is what is achieved by someone living a life that is good for him or her." Well-being, therefore, is something non-instrumentally good for people, something which is in their interest.[2] Since Derek Parfit's book *Reasons and Persons* (1984), philosophers have been distinguishing between least three kinds of well-being theories:

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[2] Well-being as a prudential value should be distinguished from moral values, such as the concept of Aristotelian perfectionism, which stated that someone's life is an ideal and good as such, and not good for somebody.

[3] Some philosophers and psychologists indicate a fourth kind of well-being theory which is human flourishing (Kraut 2007; Seligman 2011). They usually refer to Aristotelian eudemonism which also inspired the objective list approach to well-being.

hedonistic theories, desire-fulfilment theories, and objective list theories.[3] According to Hedonistic Theorists "What would be best for someone is what would make his life happiest. On Desire-Fulfilment Theories, what would be best for someone is what, throughout his life, would best fulfill his desires. On Objective List Theories, certain things are good or bad for us, whether or not we want to have the good things, or to avoid the bad things" (Parfit, 1984, p. 493). Following Anna Alexandrova (2017), we will refer to these as the Big Three theories of well-being.

There are two main problems related to well-being theory that the approaches to well-being such as hedonism, preference fulfilment theory, and the objective list theories have to deal with. The first one concerns maintaining the agent's autonomy and the second breaking the vicious circle of personal adaptation to living in poor conditions. While the hedonism and preference fulfilment theories can tackle the autonomy problem efficiently, they cannot overcome the problem of personal adaptation. In contrast, the objective list theories can solve the adaptation problem, but encounter difficulties as far as the agent's autonomy is concerned. Thus, not surprisingly, many philosophers start to investigate the possibility of constructing a hybrid version of well-being theory.

The hybrid approach to well-being has been, for example, advocated by prominent philosophers such as Derek Parfit, Shelly Kagan, Richard Kraut and Władysław Tatarkiewicz. In a short but famous appendix to his book Parfit points out "What is good for someone is neither just what Hedonists claim, nor just what is claimed by Objective List Theorists. We might believe that if we had either of these, without the other, what we had would have little or no value" (Parfit, 1984, p. 502).

Kagan's remarks are similar in spirit but she highlights the subjective constraint of otherwise objective goods: "Instead of going all the way back to hedonism, and holding that well-being consists simply in the presence of pleasure, perhaps we could retain the thought that well-being involves various objective goods – things like accomplishment, or knowledge, or love – but insist nonetheless that one is well off only if one also takes pleasure in having these things. That is to say, I am well off if and only if there are objective goods in my life and I take pleasure in them, I enjoy having them" (Kagan, 2009, p. 255). A complementary approach is presented by Kraut who points out to an objective constraint of subjective goods "(…) what makes a desire good to satisfy is its being a desire for something that has features that make it worth wanting. Notice the difference between this approach and the one that lies behind the desire theory. It says that we confer goodness on objects by wanting them; by contrast, my idea is that the objects we desire must prove themselves worthy of being wanted by having certain characteristics. If they lack features that make them worth wanting, then the fact that we want them does not make up for that deficiency" (Kraut, 2013, p. 289).

Even before all of these discussions, Tatarkiewicz, in his impressive book *Analysis of Happiness*, indicated that "A subjective satisfaction is the condition of happiness, but it also has to be objectively justified. This invests the notion of happiness with a double nature, combining the subjective and the objective" (Tatarkiewicz, 1976, pp. 15–16).

This paper aims to investigate the possibility of constructing a hybrid version of well-being (HWB for short) and making an attempt at its operationalisation. This is a mainly methodological aim which has two aspects: first of all, we would like to develop an analytical strategy to calculate hybrid well-being, then we want to show how the Big Three theories of well-being can inform empirical research. Our work can also be seen as an attempt at merging philosophical investigation with economics theories. The central concept of HWB rests on a philosophical analysis and is inspired by the aspiration to tackle adaptation and autonomy problems pointed out by philosophers. At the same time, we refer to economics and apply econometric techniques to operationalise this

concept. We would like to propose static as well as dynamic measures of HWB. Our research is to be based on an empirical analysis of datasets from the European Quality of Life Survey Integrated Data File, 2003–2012. The depositor of the data is The European Foundation for the Improvement of Living and Working Conditions. The data was downloaded from the UK Data Service.

In the first section of this paper, the basic theoretical ideas and selected approaches are presented. The second section is devoted to data analysis. The results are discussed in the third section. The fourth section includes some modifications applied to the initial procedure. At the end of this paper we discuss objections, replies, and clarifications.

Theoretical framework

The hybrid version of well-being is a trade-off between subjective and objective well-being. To calculate the HWB index initially we need to find some measure of subjective and objective well-being.

In this paper we treat subjective well-being (SWB) as happiness or life satisfaction, measured by the use of a questionnaire, the European Quality of Life Survey (EQLS), where respondents answer the following question: "Taking all things together on a scale of 1 to 10, how happy would you say you are?" This kind of research is an example of renowned studies of well-being within the economics of happiness.

While SWB is a kind of self-evaluation of the subjective state of happiness, the objective aspects of HWB refer to the capability approach of Amartya Sen and Martha Nussbaum. According to Sen (2005), the personal capability is defined as a set of valuable "doing" or "being" that a particular person is able to do or to be. For instance, it is not only important that someone has a car (commodity), and he/she actually drives it (functioning), but also his/her personal characteristics (e.g. health) and natural and social environment (e.g. distance to work, income) and his/her ability to use a car when he/she needs and wants to (capability). Sen is convinced that establishing a complete, all-purpose useful list of human capability is impossible and unnecessary. Depending on our particular objectives (e.g. poverty eradication or gender inequality prevention), when we look for the most important capability set each time we have to rely on the process of public deliberation. Nussbaum takes a different view. According to her there are fundamental human capabilities related to life, health, relationships, etc. All of them secure personal autonomy and dignity, which is why they are universally important.[4] This leads her to propose a list of central human capabilities comprising ten categories: (1) life; (2) bodily health; (3) bodily integrity; (4) senses, imagination and thought; (5) emotions; (6) practical reason; (7) affiliation; (8) other species; (9) play; and (10) control over one's political and material environment (Nussbaum, 2003, pp. 41–42). According to Nussbaum (2003, p. 40) this specific "Decalogue" is focused on both "the comparative quality-of-life measurement and the formulation of basic political principle of the sort that can play a role in fundamental constitutional guarantees".

In this paper we try to operationalise Nussbaum's list, linking each category to a specific variable or variables from the European Quality of Life Survey. Based on the fuzzy sets theory we calculate an index of objective well-being. Then the index is rated on the scale of 1 to 10, similarly to SWB. Thus there are two measures of well-being: subjective self-evaluation (SWB) and objective calculation. The former is called S (subjectivity), while the later is known as Q (quality of life). Before more details are provided, two issues are worth mentioning. The first one is that to use a survey to operationalise Nussbaum's approach we have to focus on personal functionings rather than capabilities, due to the fact that surveys

[4] Of course, the list's content is still debatable, there are also discussions regarding weights assigned to particular categories of well-being. Nonetheless, the list approach has gained some popularity among empirical researchers (Alkire, 2002).

usually contain information regarding actual and not potential doings or beings. The second issue concerns the question of objectivity. We treat the list of central human functionings as an objective in the sense that it consists of the functionings which are impartially worth wanting. Therefore objectivity is related to impartiality and not to independence from personal perspectives and attitudes (evaluations, opinions). For instance, feelings are included among central human functionings and, even if they are experienced as purely personal (subjective), they are also a part of objectively (impartially) valuable human life.[5]

Based on subjective (S) and objective (Q) well-being we use two different approaches to calculate the HWB index. Firstly HWB is defined as a minimum value of S or Q, according to the formula HWB = min (S, Q). The mobility index which measures the distance between S and Q is also calculated. Secondly, we refer to the economic concept of "internalities", measuring them by subtracting S from Q.

Defining HWB as the minimum value of S or Q might yield three possible outcomes: either Q is less than S (Q < S) or S is less than Q (S < Q) or S is equal to Q (S = Q). We suggest the following interpretation of each of these solutions. If Q < S it means that someone chooses goods which are not worth wanting, or she/he adapts to bad living conditions (has cheap tastes). In such a case his/her well-being remains at level Q. If, on the other hand, S < Q, then someone does not want to choose the goods which are worth wanting or she/he adapts to luxury (has expensive tastes). At this time his/her well-being remains at level S.[6] When S = Q it means that someone chooses only the goods which are worth wanting.

We are convinced that in order to enhance a person's well-being two separately justified and independent conditions should be satisfied: a first one, the outcome which is that the object of personal desire should be worth wanting (an objective condition); and a second, that the subject should want to achieve this outcome (a subjective condition). Both conditions are independently necessary and jointly sufficient. At this stage our approach is an exemplification of what according to Woodard (2015, p. 7) is called a joint necessity model of well-being.

Giving priority to Q when it takes the lower value enables us to be sensitive to the adaptation problem, while favouring S when it becomes lower is a way to respond to the problem of personal autonomy. In other words, if someone feels very happy (i.e. S is high) while his/her quality of life is reduced (i.e. Q is low), we suggest that his/her well-being is in fact at level Q. But if someone feels extremely dissatisfied (i.e. S is low) while his/her quality of life is excellent (i.e. Q is high), we think that his/her personal experience should have priority. In such a case nobody should be able to force another person to choose goods which he/she does not want. Thus, to highlight his/her autonomy, in our approach, the level S indicates his/her well-being.

Another way to operationalise hybrid well-being refers to the concept of internalities, which is particularly popular among behavioural economists (Raj, 2015). The basic idea is analogical to the concept of externalities. If, for example, a factory pollutes a river, causing diseases among the locals, we say that this company externalises some of its costs and that the local community unfairly bears at least part of the burdens of the factory operations. Similarly, if someone is an enthusiastic, heavy smoker, and might develop lung cancer in the future, we can say that their present-self imposes some burdens on his/her more objective future-self creating some internalities. Therefore, internalities are considered as the differences between self-evaluation of well-being (S) and the objective quality of life (Q) indicated, for example, by the state of one's health. It is calculated by subtracting S from Q.

[5] In the fourth section we will check how sensitive our conclusions are regarding different concepts of variables objectivity.

[6] Therefore our approach is sensitive to what is known as the satisfaction paradox (Q < S) and the satisfaction dilemma (Q > S) (Boelhouwer & Noll, 2014, 4437).

Positive and negative internalities can be distinguished. Positive internalities are observed if somebody has higher objective living conditions (Q) than his/her self-evaluation of happiness (S). In such a case some positive opportunities can be utilised. Conversely, negative internalities are observed if somebody's living conditions are lower than his/her level of happiness (Q < S). Similarly to the case of a heavy smoker, people can feel happy even if they have weak health or low income (negative internalities). We do not speculate what potentially caused such a situation due to its variability. Namely, it could be their own decision or decisions taken by others or simply bad luck. Nonetheless, this gap is treated as a negative state of affairs.

Data analysis

Procedure

The source of our statistical data was the European Quality of Life Survey (EQLS) gathered between 2003 and 2012. The data file contained 484 variables collected for 34 countries in three waves. In this paper we only focus on data for Poland collected in the third wave. There are 2,262 observation units (individuals). After checking the data for completeness, and eliminating missing data, the number of observation units was reduced by almost a half. Thus we decided to complement the missing data. To do that we chose the variables which had the fewest deficiencies and were relevant to well-being research. These variables became the basis for completing missing data for other variables. For this purpose a procedure based on the *k*-nearest neighbours algorithm implemented in a Statistica package was used. In the end the data contained 2,226 observation units and accounted for 35 variables without missing data.

The variables were grouped into six areas, which are the dimensions of central human functionings: (1) life, (2) health, (3) education, (4) emotions, (5) relationships, and (6) income. The variables are the indicators of objective well-being (Q). Usually there is an objective-subjective distinction concerning indicators. The objective indicators are focused on a measure of a situation, while the subjective indicators are used as an evaluation of a situation (Boelhouwer & Noll, 2014, 4436). In our case a different concept of objectivity was applied.[7] As mentioned previously, objectivity is equal to impartiality and directly related to the theoretical framework of Nussbaum's capability approach. For instance, due to the fact that health and education are goods essential to the respondents (goods put on the list of central human functionings), the reports regarding chronic illness and the levels of education, as well as the self-evaluation of health or the satisfaction derived from education, were included in indicators. There is also an entire category of indicators regarding subjective feelings and emotions which are treated as objectively valuable to people.

The selection of indicators depended on the theoretical framework, mainly Nussbaum's proposal for an objective list, as well as the availability of data. Due to a shortage of data we narrowed Nussbaum's list down to six areas of objective well-being instead of original 10 (Table 1). All indicators of well-being included in particular dimensions were collected via self-reporting.[8]

To obtain a single, aggregated assessment of respondents' objective well-being (Q) we referred to the fuzzy sets theory proposed by Zadeha (1965), which is often applied to evaluate people's degree of poverty risk. It is worth noting that this theory has been successfully applied to form a membership function of poverty in both monetary and non-monetary approaches. Among those who used the fuzzy sets theory were Cerioli, Zani (1990), Cheli (1995), Betti, Cheli, Lemmi, Verma (2005), and in Poland Panek (2011) and Ulman & Šoltés (2015). In contrast to the classic approach to the identification of poor people, when

[7] In the fourth section we will return to the traditional subjective/objective distinction regarding indicators.

[8] Another way of data collection is via independent registration (Boelhouwer & Noll, 2014: 4436) but in the EQLS this method was not used.

Table 1. The indicators included in the central human functionings

Dimensions of central human functionings	Set of indicators
Life	Problems with the neighbourhood – noise
	Problems with the neighbourhood – air quality
	Problems with the neighbourhood – the quality of drinking water
	Problems with the neighbourhood – crime, violence or vandalism
	Problems with the neighbourhood – traffic congestion
	Problems with accommodation – a shortage of space
	Problems with accommodation – lack of an indoor flushing toilet
	Problems with accommodation – lack of a bath or shower
	In my daily life I seldom have time to do the things I really enjoy
	I feel that the value of what I do is not recognised by others
	Own hobbies, interests
	My daily life is filled with things that interest me
Health	General self-evaluation of health
	Chronic (long-standing) physical or mental health problem, illness or disability
	Distance to doctor's office/hospital/medical centre
	Waiting time to see a doctor on the day of the appointment
Education	Satisfaction from education
	The highest level of education
Feelings/ Emotions	Some people look down on me because of my job situation or income
	I feel close to people in the area where I live
	I have felt lonely
	I have felt downhearted and depressed
	I am optimistic about the future
	Life has become so complicated today that I almost can't find my way
Social relationships	Face-to-face contact with friends or neighbours
	Contact with family members
	Other social contact (not family)
	Take part in sports or physical exercise
	Participate in social activities of a club, a society or an association
	Attended a meeting of a trade union, a political party or a political action group
	Attended a protest or a demonstration
	Signed a petition, including an e-mail or an online petition
	Contacted a politician or a public official
Income	OECD equivalised household income in PPP

Source: own analysis based on Nussbaum's list of central human capability.

the membership function takes only two values (1, when someone is poor, or 0, when someone is not poor), the fuzzy sets approach assesses a person's degree of poverty risk by means of a function which takes values from a range of [0:1].

The membership function of poverty is based on symptoms or indicators of poverty, distinguishing a monetary element (based on incomes or expenses) and a non-monetary element (various factors which can point to a poverty risk). Due to the fact that poverty can be treated as a low level of well-being, we can apply this approach to research on levels and diversities of well-being (referring to persons, families or households). Thus we create a membership function of well-being instead of poverty.

The first step to obtaining an aggregate measure of well-being is to standardise individual variables (well-being indicators). There is the following formula of the membership function of well-being:

$$e_{hj,i} = 1 - \frac{1 - F\left(c_{hj,i}\right)}{1 - F\left(1\right)},\ h = 1,2,\ldots,\ m;\ j = 1,2,\ldots,\ k_h,\ i = 1,2,\ldots,n, \tag{1}$$

where: $c_{hj,i}$ is a rank of a variant of j-variable (factor of poverty/well-being) from *h*-area of poverty/well-being for *i*-household (individual); and $F(1)$ is a value of cumulative distribution function of ranks of *j*-variable from *h*-area of poverty/well-being for ranking equal 1 (a variant of *j*-variable indicating the lowest level of well-being/the highest level of poverty risk).

The values of this measure are obtained for each variable (indicator) and are normalised into a range of [0:1]. The higher the value of (1), the higher the well-being level indicated by a given indicator. In the next step an aggregation of assessments of well-being (lower level of poverty) membership (for each individual) was performed by calculating the arithmetic or weighted mean for each *h*-area, then the arithmetic or weighted mean was calculated for an overall assessment of well-being. We decided to use weights in the second case when we calculated the weighted mean to obtain the overall (aggregated) normalised value of the well-being assessment using the following formula:

$$e_i = \frac{\sum_{h=1}^{m} w_h e_{h,i}}{\sum_{h=1}^{m} w_h}, \tag{2}$$

where: $e_{h,i}$ is aggregated assessment of well-being for *i*-individual (person) in the *h*-area; and w_h is a weight for *h*-area.

The system of weights is based on the comparison of the level of variation using the formula:

$$w_h = (ln(V_h)^{-1})^{-1}, \tag{3}$$

where: V_h is a coefficient of variation calculated for $e_{h,i}$.

Such a system of weights rewards those areas of well-being which differentiate the surveyed population more.

Finally, the calculation of the membership function of well-being (lower level of poverty risk) for *i*-person was made using the following formula:

$$\lambda_i = (F_i * L_i)^{\alpha}, \tag{4}$$

where: F_i is a value of cumulative distribution function of the assessments of well-being membership $F(e_i)$ for each area or in total; L_i is a value of a Lorenz function of the assessments of well-being membership $F(e_i)$ for each area or in total; and α is a parameter.

The values of the λ_i function fall into a range of [0:1]. The higher value of the function, the higher personal well-being is. The α parameter allows for the calibrating of the λ_i function in such a way that its values become comparable to the values of the base variable (S), which is a subjective evaluation of happiness.

To summarise, applying formula (1) the value of $e_{hj,i}$ was calculated for each variable. Then all these values were aggregated by taking the arithmetic mean for each *h*-area of well-being and after applying the formula (2) for all areas together. Finally, based on the aggregated values, the membership function of well-being (4) was calculated for each of six areas and in total.

Because we wanted to compare our calculation to subjective evaluations of happiness (S), which was our base variable, we decided to calibrate the function (4) in such a way that the mean of the function (4) was equal to the mean of the base variable (S).[9] To achieve that goal we had to adjust the α parameter and its estimated value, which ensured the equality of the means was 0.1608.

[9] The variable (S) represents the level of happiness, on a scale of 1 to 10, while the function (4) takes values from 0 to 1, so the average of the variable (S) was divided by 10 to compare with the average of the values of the function (4).

To compare the base variable (S) to objective well-being (Q) we grouped the values of the function (4) into ten categories. We assumed that the interval of the function variability would be divided into ten intervals of equal length. Finally, based on the particular interval of the value of the function (4), the numbers from 1 to 10 were assigned to each observation unit (individuals).

To indicate the transition between S and Q or S and HWB we used Bartholomew's mobility index (B), which in the present context can be defined as

$$B = \frac{1}{s-1}\sum_{i=1}^{s}\sum_{i=1}^{s} w_i p_{ij} |i-j|, \qquad (5)$$

where: s is the number of categories; w_i is a fraction of people belonging to the i-th category of the base variable (S); p_{ij} is the probability of each element mobility, which is calculated using the following formula

$$p_{ij} = \frac{n_{ij}}{\sum_{j=1}^{s} n_{ij}} \text{ for } i, j = 1, 2\ldots, s, \qquad (6)$$

where n_{ij} is the number of people belonging to the i-th category of the base variable (S) and the j-th category of the objective well-being assessment (Q or HWB).

Finally, we presented the relationship between the subjective and objective evaluation of well-being by focusing on differences between them. Thus, the internalities were calculated (Q – S).

Results

The subjective and objective evaluations of well-being are compared in Table 2. Respondents' degree of happiness (S) was compared to objective assessment of well-being (Q). For instance, 13 people in total claimed to be very unhappy; however, according to our calculated assessment of well-being, none of these respondents fell into the lowest level of well-being. Instead all of them were included in the higher categories of well-being: category 2 (three persons), 3 (two persons) 4 (three persons), 5 (two persons), 6 and 7 (one person each), and 10 (i.e. very happy) (one person).

Table 2. Happiness vs objective well-being

	Objective well-being (Q)										
Degree of happiness (S)	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
1 (very unhappy)	0	3	2	3	2	1	1	0	0	1	13
2	2	1	5	5	6	2	2	1	1	0	25
3	0	5	8	12	12	6	12	4	3	2	64
4	0	3	5	11	10	16	6	12	9	1	73
5	0	3	12	18	33	35	47	42	36	22	248
6	0	1	10	17	23	43	39	38	53	20	244
7	0	2	6	12	28	43	54	67	81	86	379
8	1	1	2	16	28	42	73	117	143	156	579
9	0	1	1	4	7	20	30	45	66	126	300
10 (very happy)	0	1	2	1	8	14	33	53	70	119	301
Total	3	21	53	99	157	222	297	379	462	533	2,226

Source: own analysis of EQLS data.

The main downwards diagonal shows the number of people whose subjective evaluation of happiness (S) was equal to the objective assessment of well-being (Q) calculated by function (2). The number of people whose subjective evaluation was lower than the objective assessment of well-being (S < Q) were allocated above the main downwards diagonal, whereas individuals whose happiness was higher than their objective evaluation of well-being (S > Q) were allocated below the main downwards diagonal. Thus, having both S and Q, the hybrid version of well-being (HWB) was calculated according to the formula HWB = min (S, Q). For instance, HWB at level 5 consisted of 33 cases when Q = S, 182 cases (35 + 47 + 42 + 36 + 22) when S < Q, and 94 cases (23 + 28 + 28 + 7 + 8) when S > Q. There were a total of 309 cases, as shown in Table 3.

Taking aggregate numbers of S and HWB in each category of happiness and well-being, HWB exceeded S for the lower and middle categories (from 1 to 7), while S exceeded HWB for the higher categories (from 8 to 10) (see Figure 1). This means that according to HWB there were more people in the lower and middle levels of well-being than were indicated by self-evaluation of happiness (S).

Since HWB is focused on the lowest levels of S or Q, when calculating HWB it is important to be sensitive not only to the aggregate number of HWB in each category but also to the movement between higher and lower categories of well-being. For this reason the mobility index was calculated. Table 4 shows the outcomes of the mobility index when the subjective evaluation (S) is higher than the objective assessment of well-being (S > Q), and when the subjective evaluation (S) is lower than the objective assessment of well-being (S < Q), as well as the total value. Due to the fact that S is the base variable, the mobility index is a measure which captures the movement from S to Q. The value of the mobility index depends on the frequency of transitions between the compared categories of well-being assessment, as well as the size of these transitions (differences in well-being evaluations).

Table 3. Happiness vs hybrid well-being

	Hybrid well-being (HWB)										
Degree of happiness (S)	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
1 (very unhappy)	13	0	0	0	0	0	0	0	0	0	13
2	2	23	0	0	0	0	0	0	0	0	25
3	0	5	59	0	0	0	0	0	0	0	64
4	0	3	5	65	0	0	0	0	0	0	73
5	0	3	12	18	215	0	0	0	0	0	248
6	0	1	10	17	23	193	0	0	0	0	244
7	0	2	6	12	28	43	288	0	0	0	379
8	1	1	2	16	28	42	73	416	0	0	579
9	0	1	1	4	7	20	30	45	192	0	300
10 (very happy)	0	1	2	1	8	14	33	53	70	119	301
Total	16	40	97	133	309	312	424	514	262	119	2,226

Source: own analysis of EQLS data.

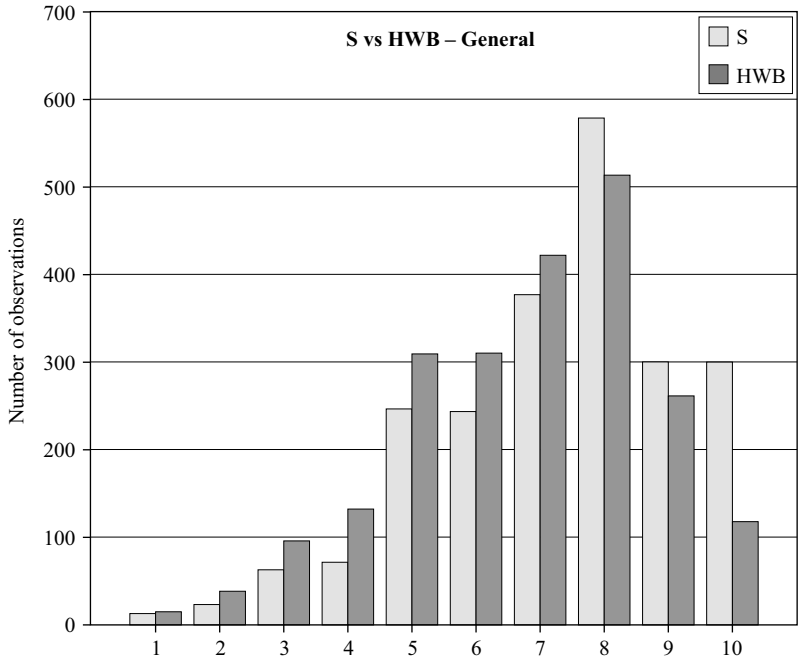

Figure 1. Happiness (S) vs hybrid well-being (HWB)

Source: own analysis of EQLS data.

As shown in Figure 2, the same pattern was presented concerning all six dimensions (areas) of central human functionings.

Table 4. Mobility index

	Total	**1. Life**	**2. Health**	**3. Education**	**4. Emotions**	**5. Relationships**	**6. Income**
ind. S > Q (HWB index)	0.060832	0.081567	0.074171	0.083037	0.061101	0.061834	0.116602
ind. S < Q	0.120140	0.144177	0.136709	0.120745	0.108100	0.167307	0.109241
ind. Total	0.180972	0.225745	0.210880	0.203781	0.169202	0.229140	0.225843

Source: own analysis of EQLS data.

In general, the movement from lower subjective declarations to higher objective evaluations of well-being S < Q (0.120140) was more important in comparison to the movement from higher subjective assessment to lower objective calculation S > Q (0.060832). This means that the objective quality of life appeared to be better than the self-evaluation of happiness. For instance, out of 248 cases at level 5 in the happiness evaluation (S) 182 cases were put higher on the objective scale of well-being (Q). Due to the fact that HWB concentrates on the lowest levels of S or Q, the mobility index when S > Q reflects the idea of hybridisation. In such a case the mobility index

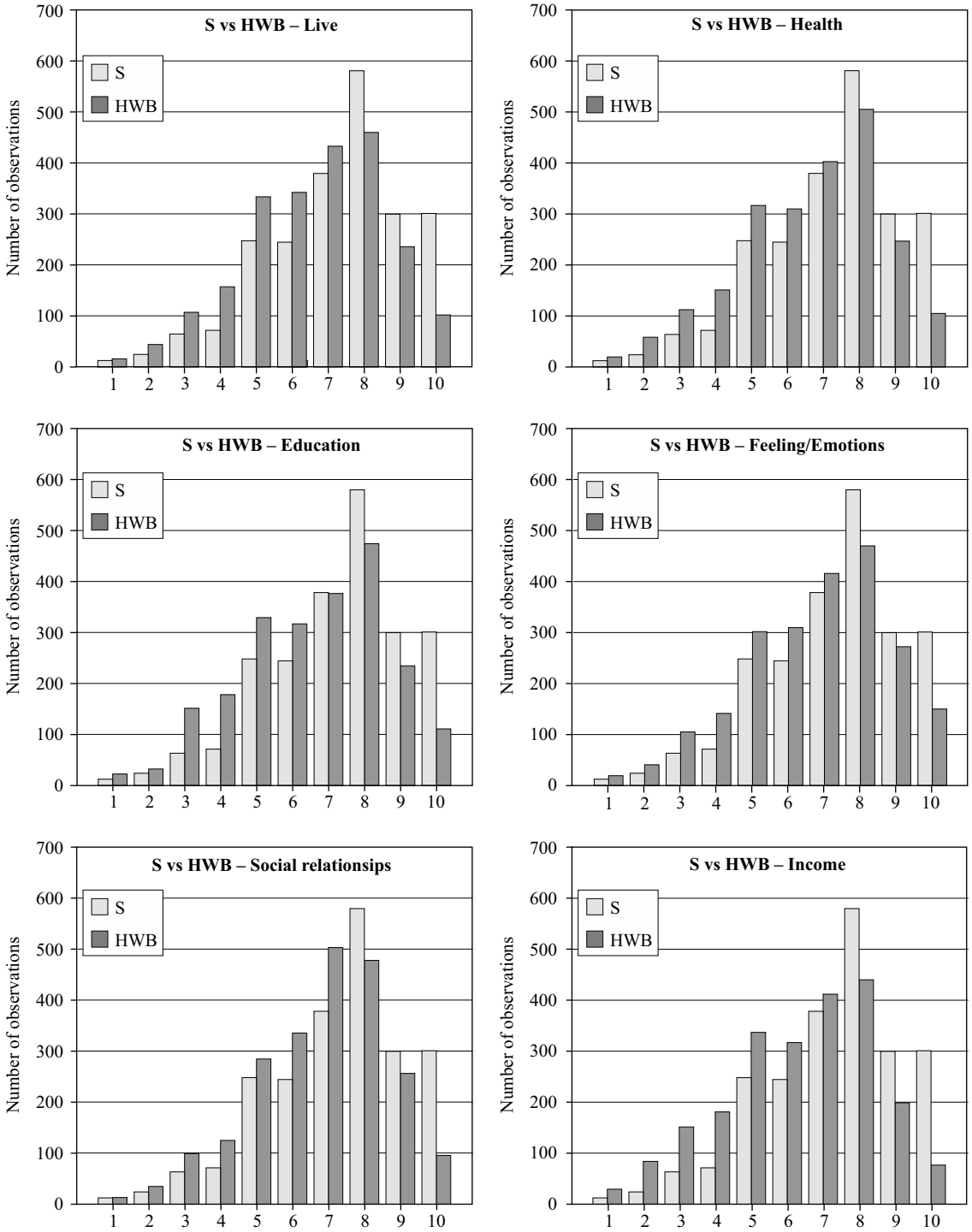

Figure 2. Six areas of HWB

Source: own analysis of EQLS data.

is sensitive to the movement from a higher S to a lower Q and ignores the movement from a lower S to a higher Q. If Q is higher than S, the hybrid well-being should remain at level S.[10]

Among the six areas of evaluation the mobility index when S > Q was the lowest in emotion and relationships areas (0.061) and the highest in income area (0.116602). These results may indicate that the respondents were more satisfied with their income than one could expect taking into account objective conditions.

The lower the mobility index, the more accurate personal self-evaluation of happiness is in relation to the objective assessment, and the highest well-being. Thus we have to tendency to minimise HWB measured as a mobility index. Although HWB regarded both as a static (levels) as well as a dynamic (movements) measure gives us information about personal well-being, it is also important to know by how much Q exceeds S and S exceeds Q in each category (levels of evaluation) and area (dimensions of functionings). This leads us to consider the third possible measure of HWB referring to the concept of "internalities", which are defined as the differences between S and Q (see Figure 3).

In 452 out of 2,226 cases no internalities were detected, which indicates that S was equal to Q, and HWB was equal to S and Q (S = Q = HWB). In other cases positive or negative internalities were found. There were 643 positive internalities (S < Q, HWB = S), and 1,131 negative internalities (Q < S, HWB = Q). In total there were 1,774 internalities. Thus in this interpretation the HWB index was close to 80%. As shown in Figure 4, negative internalities dominated in all areas.

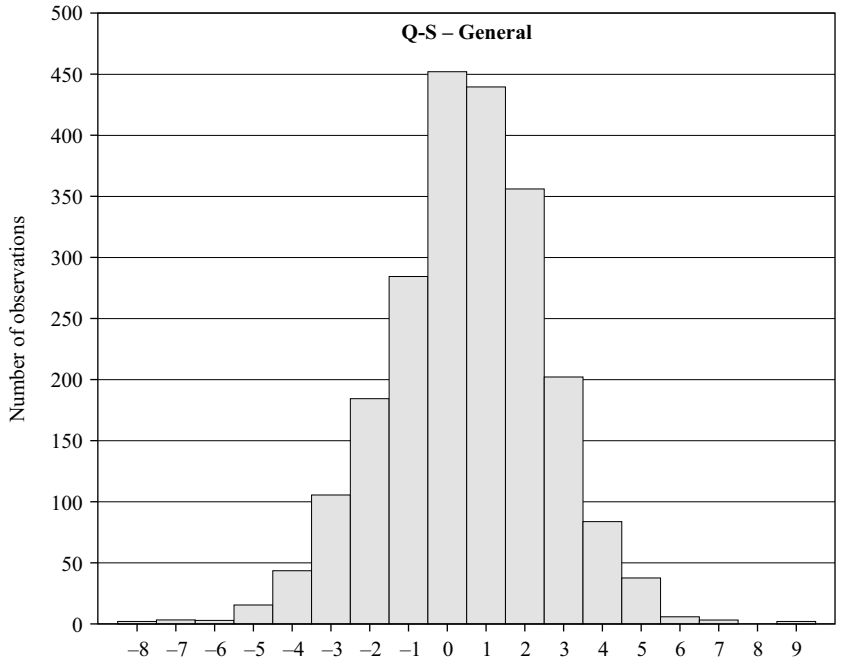

Figure 3. Internalities

Source: own analysis of EQLS data.

[10] It is also possible to measure the movements from higher Q to lower S, but in such a case the base variable should be Q and the HWB index would be calculated for Q.

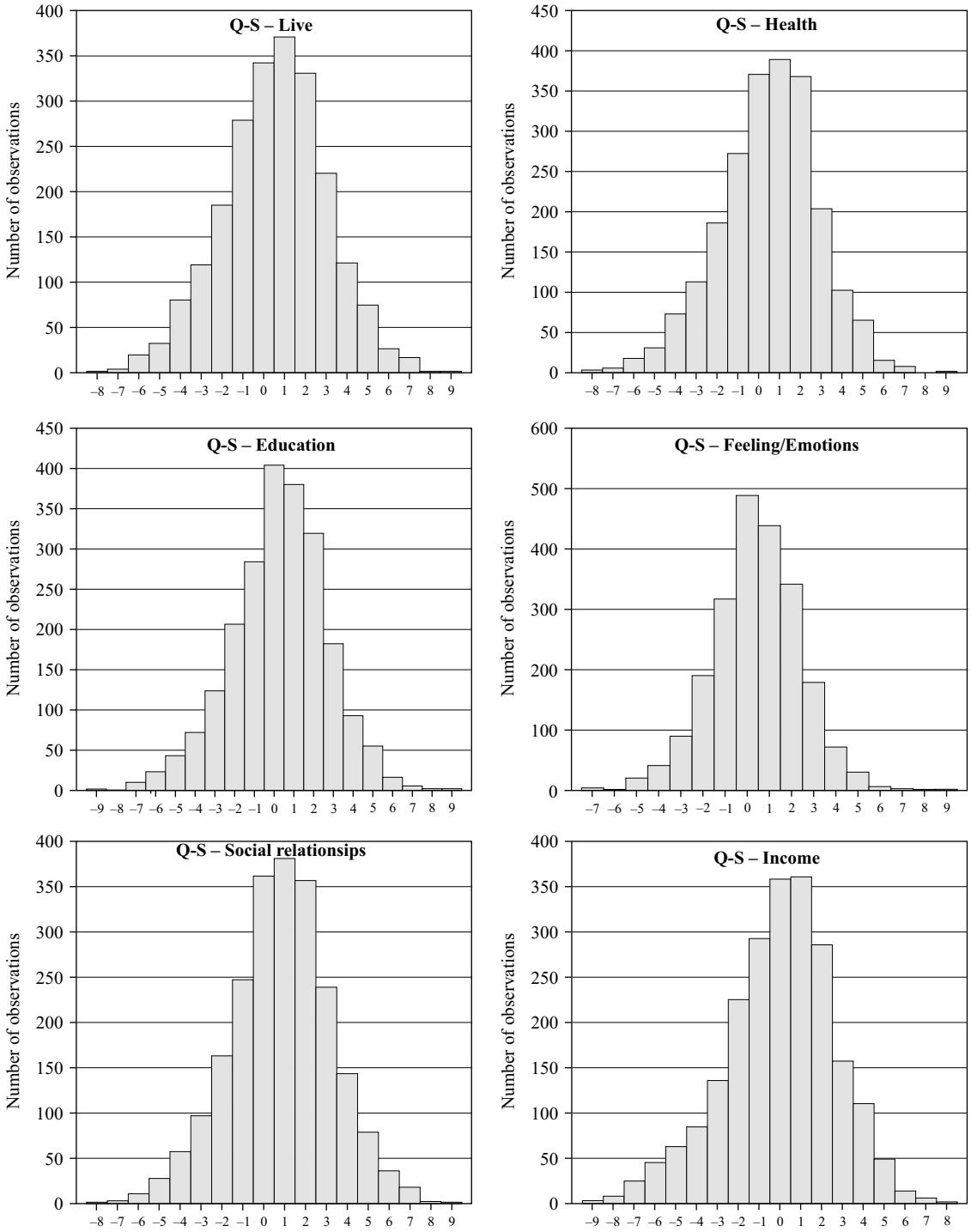

Figure 4. Six areas of internalities

Source: own analysis of EQLS data.

In summary, three measures of HWB were calculated, one static and two dynamic: three measures of HWB were calculated: the first, category aggregation, when HWB = min (S, Q), the second, category movements, when HWB = mobility index for S > Q, and the third, internalities, when HWB = (Q – S). It is worth noticing that the category aggregation is a static measure and the other two measures are dynamic. As a result we have four kinds of information regarding personal well-being which are useful for policy purposes: (1) levels of subjective well-being; (2) levels of objective well-being; (3) movement from S to a lower Q (potential adaptation problems); and (4) movement from S to a higher Q (potential cost efficiency taste problems).

Potential modifications

So far different variants of HWB calculation have been investigated. Now we would like to examine how far the results would change if some modification of HWB procedure and variables segregation were introduced. First of all, the procedure of HWB calculation is modified in such a way that HWB* takes the value Q if and only if Q is lower than S by more than 2 levels (|S – Q| > 2), otherwise it remains at the same level of declared happiness (S). For instance, let us assume that for some respondent S = 5 and Q = 8, then HWB* will take the lowest value (i.e. 5). If for the same respondent Q = 4, then his/her HWB* will remain at level 5. Only if Q = 2, will his/her HWB* index be equal to Q and will take the value of 2. Table 5 shows the result of HWB*.

As shown in Figure 5, the main difference between HWB and HWB* is that HWB* is slightly below HWB for lower and middle categories of well-being (from 1 to 7) and above for higher categories (from 8 to 10). However, in relation to subjective well-being (S), the general pattern remains the same.

Due to the fact that in the HWB* calculation the variable S less frequently moves to the lower Q in comparison to HWB, the dynamic measure of HWB* (the mobility index for HWB*) takes a lower value too (see Table 6). For instance, HWB = 0.060832 in total, while HWB* = 0.028473.

Table 5. Happiness vs hybrid well-being, HWB* with condition |S – Q| > 2

	Hybrid well-being (HWB*)										
Degree of happiness (S)	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
1 (very unhappy)	13	0	0	0	0	0	0	0	0	0	13
2	0	25	0	0	0	0	0	0	0	0	25
3	0	0	64	0	0	0	0	0	0	0	64
4	0	0	0	73	0	0	0	0	0	0	73
5	0	3	0	0	245	0	0	0	0	0	248
6	0	1	10	0	0	233	0	0	0	0	244
7	0	2	6	12	0	0	359	0	0	0	379
8	1	1	2	16	28	0	0	531	0	0	579
9	0	1	1	4	7	20	0	0	267	0	300
10 (very happy)	0	1	2	1	8	14	33	0	0	242	301
Total	14	34	85	106	288	267	392	531	267	242	2226

Source: own analysis of EQLS data.

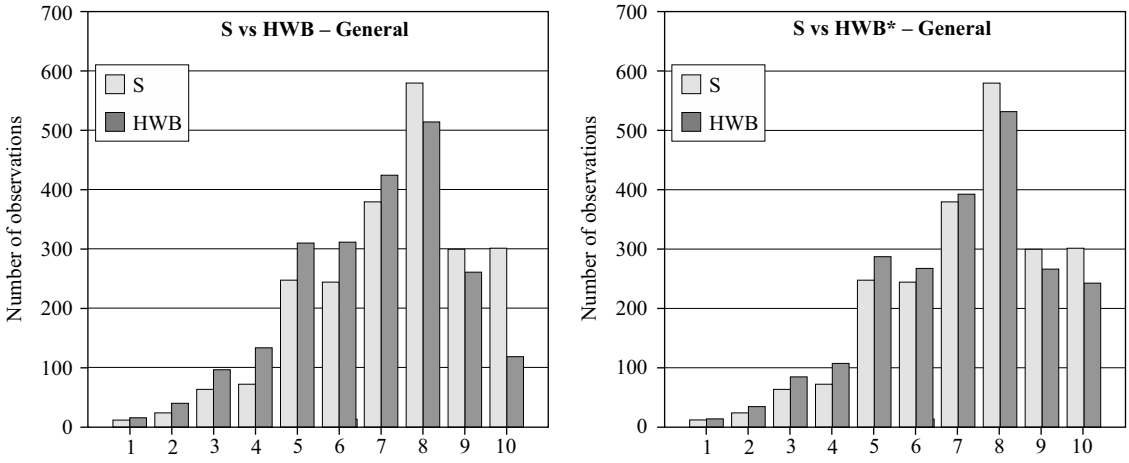

Figure 5. Happiness (S) vs hybrid well-being (HWB vs HWB*)

Source: own analysis of EQLS data.

Table 6. Mobility index for HWB

	Total	1. Life	2. Health	3. Education	4. Emotions	5. Relationships	6. Income
ind. S > Q (HWB* index)	0.028473	0.049431	0.043579	0.048388	0.026402	0.034764	0.079891
ind. S < Q	0	0	0	0	0	0	0
ind. Total	0.028473	0.049431	0.043579	0.048388	0.026402	0.034764	0.079891

Source: own analysis of EQLS data.

It is worth noting that HWB* measured by the internalities remains equal to HWB, because both are based on the same variables Q and S.

The second modification concerns changes in the variables combination. As shown in Table 7, instead of grouping the variables into six areas (dimensions), they are divided into two groups: subjective and objective indicators. While subjective indicators consist of feelings and personal evaluation of situations, the objective ones account for the measure of important factors of situations. Then Q is calculated in the subjective and objective areas respectively, and in total.

As a result, we receive quite similar patterns of the relationship between S and HWB measured in subjective as well as objective areas of indicators for lower and middle categories of well-being (from 1 to 7) and slightly different for higher categories (from 8 to 10). When HWB is based exclusively on subjective indicators its value is closer to S for the two highest categories (see Figure 6).

Regarding the dynamic measure of HWB (and HWB*), the mobility index takes a lower value in the case of a subjective area as compared to an objective one (see Table 8). This result complies with our expectations, as we rarely observed movements from a higher S to a lower Q if we took subjective variables into account only.

HWB measured by internality also confirms this conclusion. As shown in Figure 7, there are

Table 7. The indicators included in the central human functionings (Objective – facts, Subjective – opinions)

Dimensions of central human functionings	Set of indicators
Objective	Problems with the neighbourhood – noise
	Problems with the neighbourhood – air quality
	Problems with the neighbourhood – the quality of drinking water
	Problems with the neighbourhood – crime, violence or vandalism
	Problems with the neighbourhood – traffic congestion
	Problems with accommodation – a shortage of space
	Problems with accommodation – lack of an indoor flushing toilet
	Problems with accommodation – lack of a bath or shower
	Chronic (long-standing) physical or mental health problem, illness or disability
	Distance to doctor's office/hospital/medical center
	Waiting time to see a doctor on the day of the appointment
	The highest level of education
	Face-to-face contact with friends or neighbours
	Take part in sports or physical exercise
	Participate in social activities of a club, a society or an association
	Attended a meeting of a trade union, a political party or a political action group
	Attended a protest or a demonstration
	Signed a petition, including an e-mail or an online petition
	Contacted a politician or a public official
	OECD equivalised household income in PPP
Subjective	General self-evaluation of health
	Satisfaction from education
	In my daily life I seldom have time to do the things I really enjoy
	I feel that the value of what I do is not recognised by others
	Own hobbies, interests
	My daily life is filled with things that interest me
	Some people look down on me because of my job situation or income
	I feel close to people in the area where I live
	I have felt lonely
	I have felt downhearted and depressed
	I am optimistic about the future
	Life has become so complicated today that I almost can't find my way
	Contact with family members
	Other social contact (not family)

Source: own analysis of EQLS data.

Table 8. Mobility index for HWB and HWB* in subjective – objective dimensions

	HWB			HWB*		
	Total	subjective	objective	Total	subjective	objective
ind. S > Q	0.053637	0.053672	0.07443	0.025258	0.023174	0.043633
ind. S < Q	0.117939	0.111102	0.134323	0	0	0
ind. Total	0.171576	0.164775	0.208753	0.025258	0.023174	0.043633

Source: own analysis of EQLS data.

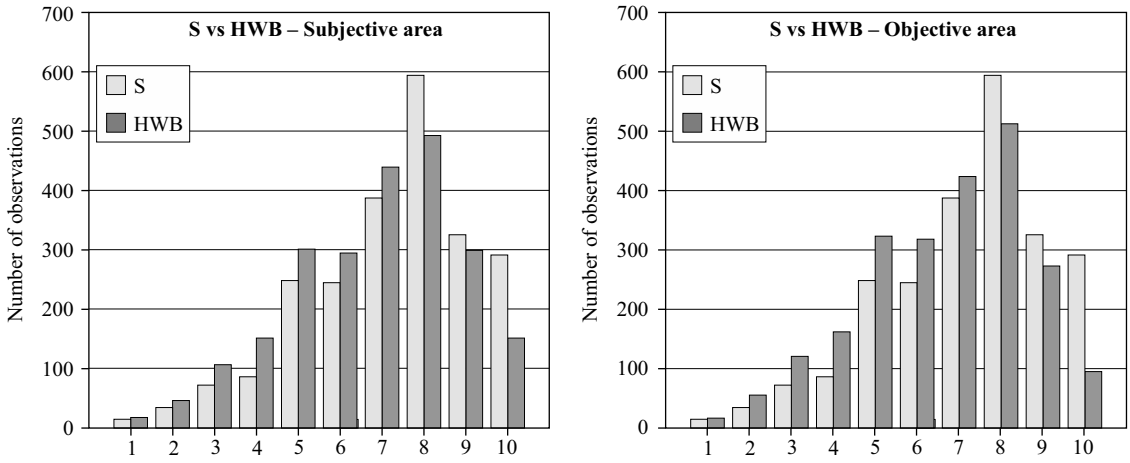

Figure 6. Happiness (S) vs hybrid well-being (HWB) in subjective – objective dimensions

Source: own analysis of EQLS data.

fewer internalities (negative and positive) especially in the higher categories (from 6 to 9) when Q is based only on subjective indicators.

Objections, replies, and clarifications

What are the pros and cons of the analysis presented in this paper? Firstly the ability to combine into one outcome two kinds of information: subjective evaluation of happiness (S) and objective, calculated well-being assessment (Q). Secondly the assumption that hybrid well-being (HWB) takes the minimum value of S or Q enables us to be sensitive to the problem of adaptation and autonomy. If people feel worse than they in fact are, according to the calculated value of well-being, then the HWB index gives priority to their feelings. In such a case their autonomy is highlighted. However, if their happiness is higher than their objective well-being allowed, then the HWB index

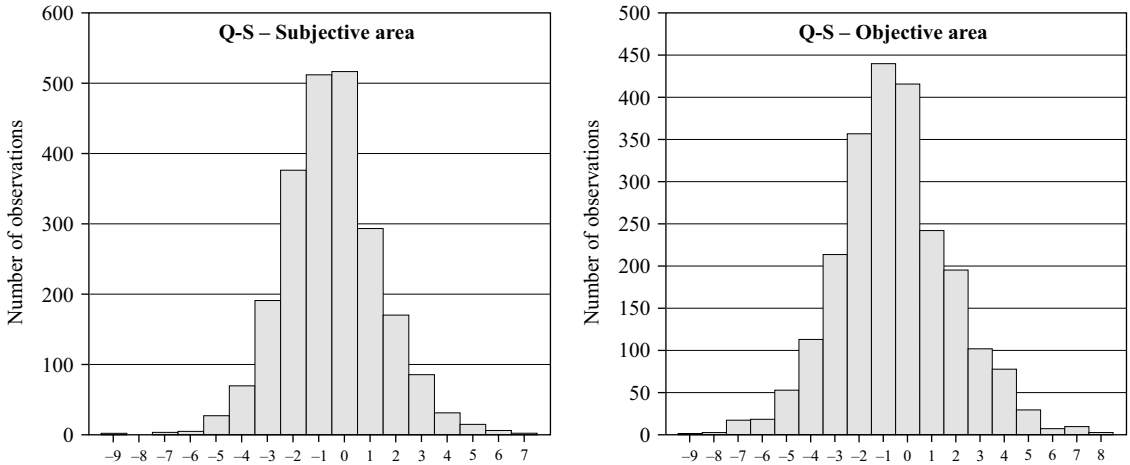

Figure 7. Subjective and objective areas of internalities

Source: own analysis of EQLS data.

gives priority to objective well-being. Thirdly the approach developed in this study provides us with a precise measure of the differences occurring between S and Q, on the one hand, and S and HWB, on the other hand. The movement from a higher S to a lower Q can be calculated by the mobility index, while the gap between S and Q can be yielded by internalities. Fourthly, our proposed measure of HWB meets some of the criteria of the good well-being measure for policy purposes stated by Dolan and Peasgood (2008, p. 58). HWB is conceptually appropriate (i.e. is a complete measure of prudential value) because it attempts to combine both subjective and objective components of well-being. The HWB index can be used as an indicator to compare HWB in time and across different populations (e.g. communities, countries, etc). Thus it seems to be a valid measure. HWB is also sensitive to the satisfaction paradox and the satisfaction dilemma (Boelhouwer & Noll, 2014, 4437). And it is also a reasonably useful tool for collecting and calculating data, which means it is empirically valuable. Fifthly, although the approach adopted in this study is data-driven, it also refers to a philosophical background. People's actual feelings and actions should be taken into consideration. At the same time, we have to be aware of normative reasons justifying objective lists of personal goods. A combination of normativity with empirical views sensitises researchers to the problems of well-being, which itself is both normative and positive in nature. Finally, our approach is flexible and has the features of modifiability, as has been shown in the fourth section.

Although HWB analysis has significant advantages, it is not free of weaknesses. Some objections can be related to (1) the theoretical framework, (2) the quality of empirical data and (3) the calculation procedure.

First and foremost, critics may doubt that Nussbaum's objective list theory is the proper basis for the analysis. Next they can object to the ascribing of particular variables to each of the ten categories indicated by Nussbaum. We can address those doubts by highlighting the fact that the goal of our analysis is mainly methodological and calculations have illustrative character. The reasons behind choosing Nussbaum's theory were its generality and clarity. At the same time, we want to stress that the strategy of creating objective lists is becoming more and more popular among researchers (Alkire, 2002; Cummins, 2000). To carry out the calculation we used previously collected data. Thus not all selected variables fitted Nussbaum's list perfectly.

The second objection relates to the data gathered in the survey regarding personal self-evaluation of happiness. It seems evident that the context in which people were asked to evaluate their happiness could affect their answers. For instance, the view of a person in a wheelchair or experiencing lousy weather at the moment of completing the survey might have influenced the respondent's answers. Nevertheless, there is no agreement between scholars whether such kinds of contextual dependence make a questionnaire survey unusable or uninformative (Alexandrova, 2017, XXVI, XXVII).

The third set of objections can be raised with regard to the procedure concerning Q, HWB, and internalities calculation. Some doubts could occur due to the fact that personal assessments were included among the variables used to calculate Q. Thus the objective value of well-being seems to be based on subjective judgments. We are fully aware of this issue. However, it is important to highlight the fact that our concept of objectivity does not refer to the concept of being subjectively independent, but to being objectively worth wanting. For instance, we are not only willing to accept information concerning the respondent's chronic mental or physical health problems, but also their general self-evaluation of health. Therefore we posit that there are good reasons to believe that health is something worth wanting and we have tried to collect as much different information about health as it was possible.

Another criticism could be directed at the HWB formula, in particular at the fact that we decided to take a minimum value of S or Q, and not the maximum value or the sum of both values.

Perhaps it is reasonable to consider the introduction of some weighting into the formula. As far as the minimum approach is concerned, the choice was driven by the aspiration to pay attention to two main problems of well-being theories: autonomy and adaptation. Thereby the introduction of weighting should be taken into account; however, in our attempt to operationalise the hybrid well-being we focused on the most straightforward formula when weights were equal.

Last but not least, critics could say that the present calculation of internalities seems unreliable, as neither the error regarding calculation (Q) nor the error regarding self-evaluation (S) could be excluded from it. Thus it is not certain whether the difference between Q and S is due to real disparities between the personal evaluation of well-being and objective conditions or to errors on both sides: the survey and calculation process. Similar concerns can be raised with regard to the mobility index. Although it is difficult to overcome this objection entirely, we attempted to address this issue by some modifications of the HWB formula. For instance, restrictions such as $|S - Q| > 2$ can be imposed on HWB, giving priority to the self-evaluation of happiness and ensuring that accidental changes in Q will not be taken into account. What is more, different variants of Q based on different variables and grouping dimensions can be calculated. Then, to test the reliability of HWB, its alternative measures can be compared.

Summary

Our primary objective was to show some possibilities of hybrid well-being operationalisation. In order to do that three measures of HWB have been proposed: the first, the formula $HWB = \min(S, Q)$, when S is a subjective state of satisfaction (happiness) and Q is the calculated measure of objective well-being; the second, HWB as the mobility index, when $S > Q$; and the third, HWB as an internality, when $Q - S$. Possible modifications of these measures have also been investigated. We are convinced that it is not only possible to create a philosophically informed measure of well-being but also one which is crucial in the context of public policy. The HWB index has advantages over purely subjective or solely objective measures of well-being, in terms of its sensitivity to autonomy and adaptation problems.

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The Neo-Weberian State paradigm in the water and sewage sector in Poland

Abstract

Objectives: The main objective of this article is to investigate the current stage of the public management paradigm in the area of the water and sewage sector in Poland.

Research Design & Methods: A thorough examination of the current stage of research of the post-New Public Management concepts is followed by empirical analysis of public management paradigms present in the water and sewage sector in Poland. The research hypothesis focuses on a shift from the NPM model towards other paradigms closer to Neo-Weberian State or a hybrid. Analysis of statistical data is supported by additional arguments related to recent publications and legal changes in the sector.

Contribution/Value Added: This article is one of the first analyses of the applications of post-NPM paradigms in the water and sewage sector in Poland. A special emphasis is put on the discussion of NWS elements in the paradigm shift taking place in this sector.

Implications/Recommendations: The results of the research conducted prove that the NPM model is still in place in the water and sewage sector in Poland, but gradually, in particular as a result of recent changes to legislation and the introduction of more centralised procedures, the NPM model is being supplemented by new elements that are clearly of a NWS origin. While it is visible that these paradigms co-exist at this point, it is necessary to continue research and thorough observations of the sector to investigate the future development of public management in this area.

Article Classification: Research article

Keywords: New Public Management, Neo-Weberian State, Public Governance, post-NPM paradigms, water and sewage sector

JEL Classification: H400, H410

Introduction

Since 1990 local municipalities in Poland have been responsible for the majority of technical public services. This was a result of the concept of decentralisation of public administration, especially at the local level, and was expressed in *Ustawa o samorządzie gminnym*[1] (Sejm, 1990). As Levitas (2018) argues, this was an act which desperately sought a rapid transformation of post-communist Poland, and the entire notion of decentralisation and the passing most of the fundamental public services

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[1] English translation: Law on Municipal Self-Government.

to local municipalities resulted from a conscious decision of the political leaders who wanted to focus on reforming the state at the central level and took the risk of trusting newly-created local self-governments with enormous responsibilities.

Until 1990 water supply and waste water treatment had been dealt with by state-owned companies that, as a result of transformation in 1990s, were communalised and this sector became the responsibility of local governments. From the very beginning, as it has been clearly described by Chudziński *et al.* (2018a, 2018b), the sector introduced methods directly derived from traditional business, enriching them via gradual modernisation and building a cadre of professional managers, who often had previous business experience.

The main problem that the entire water and sewage sector has had to face over the last two or three years is related to the concept of the provision of public services in the times of the rapid growth of water companies and increasing prices of their services. In many places in Poland local communities have started difficult discussions about the future of the sector and this has become part of a wider concept of public management. Unsurprisingly, practices that have been used for the last 20 years have become out of date.

The Neo-Weberian State paradigm and other post-New Public Management approaches: a review of the literature

The beginning of the discussion on the phenomena of the Neo-Weberian State (the NWS) can be associated with the publication of a book by Pollitt and Bouckaert titled *Public Management Reform: A Comparative Analysis* (2004). Those authors, discussing the challenges of 21st century, the rise of new practices in Public Management (PM) and limitations of the New Public Management (NPM) concept, identified a new model of PA reforms and proposed a new term: *Neo-Weberian State.* This approach was further developed in the third edition of their book (Pollitt & Bouckaert, 2011). The interesting conclusions of Pollitt and Bouckaert (2011) focused on distinguishing common features of PA reforms in Europe, especially continental, as opposed to the trends in the Anglo-American world, specifically in the USA and New Zealand. It should be noted that Pollitt and Bouckaert's views on the NWS in 2011 were strengthened and supported by findings based on analysis following the 2008 financial crisis. The authors clearly connected the origins of the crisis with the application of NPM in Western countries and called for a viable alternative to NPM, which they introduced into the debate on the future of PA reforms, i.e. the *Neo-Weberian State.*

The first work of Pollitt and Bouckaert (from 2004) provoked some further discussions. We should mention here Drechsler (2005a and 2005b), Dunn and Miller (2007), Lynn (2008), Drechsler and Kattel (2008), Pollitt (2008), and Randma-Liiv (2008). All of those researchers tried to expand Pollitt and Bouckaert's NWS concept, enriching them with their theoretical dispute most often on the grounds of analysis of the limitations of NPM with particular special emphasis on the European context.

Drechsler (2005a) takes a strong stand attacking the very essence of NPM: he sees NPM as an element of neo-classical imperialism based on the assumption that the only cause for people's behaviour is profit maximisation (see Kostakis, 2011, p. 147) and claims that 'the use of business techniques within the public sphere confuses the most basic requirements of any state, particularly if a Democracy, with a liability: regularity, transparency, and due process are simply much more important than low costs and speed." The author provides a simple chronology of the failure of NPM (Drechsler, 2005a):

- around 1995 it was still possible to believe in NPM, although the first strong and substantial critiques had already been put forward;
- around 2000 the supporters of NPM were on the defensive, as empirical findings by then spoke clearly against it;

– around 2005 NPM was no longer considered to be a viable concept.

The failure of NPM was clearly seen after late 2008 financial crisis that hit the markets in many countries around the world. This directed the attention of both politicians and also researchers towards efficient bureaucracy and the important role of the state as a 'rescuer' (Drechsler, 2005a). Despite this fact, the proponents of NPM soon forgot about the reasons for the 2008 crisis and still there is a viable movement of the advocates of NPM who call for reforms in the spirit of NPM. According to Drechsler (2005a), who acknowledges the importance of the notions of Pollitt and Bouckaert (2004) with regard to the NWS, the time has come for a new vision of reforming PA, which should come to PA's roots in Weber's concept, modernised with new elements.

Drechsler further work (2005b) directs researchers' attention to the NWS as a post-post-NPM concept and provides interesting insights into the PA reforms in Central and Eastern Europe (CEE). Drechsler does not see the NWS as a contradiction to NPM, but rather as a development of it based on Weberism that uses the NPM experience (see also Białynicki-Birula *et al.*, 2016). With regards to the CEE, Drechsler calls for what can be described as "theoretical realism", the probable failure of any attempts to reform post-communist states without building the strong fundaments that Drechsler sees in elements of classical Weberism. A good illustration of Drechsler's approach is what Guy Peters wrote in 2001 (Peters, 2001, in Drechsler, 2005b):

> Most governments in the world face pressures, either psychological or more tangible, to adopt the modern canon of administration in the form of NPM. For [CEE and Latin America], those pressures are likely to do more harm than good. Despite the appeal of ideas such as deregulation and flexibility, governments attempting to build both effective administration and democracy might require much greater emphasis on formality, rules, and strong ethical standards. The values of efficiency and effectiveness are important but in the short run not so crucial as creating probity and responsibility. Once a so-called Weberian administrative system is institutionalized, then it may make sense to consider how best to move from that system towards a more "modern" system of PA. (2001, p. 176; see also p. 164)

The notion of challenges associated with introduction of PA reforms in the countries of CEE can be also found in the work of Tina Randma-Liiv (2008). That author identifies crucial issues that have to be taken into account when making decisions on the directions of the reforms, i.e.:

– minimal vs strong state (the role of the state, the heritage of communist regimes, the lack of a solid base for democratic development, the weaknesses of NPM in transitional systems, the low popularity of 'strong' governments);
– flexibility vs stability (the contradiction between "transition" and "stability", too many structural changes in the administration, the balance between flexibility and stability, the search for the best solutions – the NWS framework);
– deregulation vs regulation (the establishing of new laws, rules, regulations and principles from scratch, building new institutions results in more rules, the NWS as a more predictable concept);
– marketisation or not? (over-idealisation of the private sector in CEE countries, massive privatisation, weak systems of contractual rights in CEE states, low level of managers in both public and private sectors, a solution – a balance between reaffirmation of the role of the state and administrative law and "Neo" elements of the NWS focusing on the achievements of results);
– fragmentation vs unity (decentralisation as opposed to co-ordination mechanisms, lack of civil service generalists, the need for the implementation of structural policies, the NWS supporting the development of unity of PA and common public service – a backbone for stabilisation resulting also in the development of continuity in public services, an identifiable

administrative culture and unified standards of conduct);
– democratic vs technocratic values (replacement of the traditional three C's (conduct, code of ethics, and culture) by three NPM E's (economy, efficiency, and effectiveness); if not rooted deeply in culture, NPM's E's can easily overrun democratic values, client vs resident approach, the NWS brings representative democracy supplemented by a range of devices for consultation) (Liiv, 2008, pp. 4–12).

Liiv summarises her findings by noting that "public administration reforms in CEE have offered a 'textbook example' of conceptual misunderstandings, and a mixture of unfitting administrative solutions and tools" (Liiv, 2008, p. 12), adding that "the key for further development in the CEE countries is to first ensure the presence of the 'Weberian' elements of the NWS and only then start gradually building the 'Neo' elements by introducing individual modern management tools" (Liiv, 2008, p. 13).

An important input into the research approaches to the NWS is an article written by two authors: Wolfgang Drechsler and Rainer Kattel (2008). It is another example of a vivid criticism of the NPM and includes interesting conclusions regarding the NWS as a solution for certain reforming approaches in contemporary Europe, especially CEE. The authors claim that the NWS might be:

> …a political response to some of the forces of globalisation that attempts to preserve the European social model directly threatened by the process of globalisation. The "neo" elements preserve the main part of the traditional Weberian model and modernise it. … The NWS does not say whether it works but brings changes specific to the context of Continental Europe. Thus, it would not be correct to call the NWS a strategy (since the changes have been incremental), but a political orientation. Empirically, the basis of the NWS remains the Weberian structure to which some of the NPM elements have been added (rather than Weberian elements added to NPM). (Drechsler & Kattel, 2008)

This "political" connotation is of a special significance: it brings a completely new dimension to the discussion. It broadens the discussion and opens it not only for the world of academia, but much wider, it becomes a subject for modelling of political visions and specific programs.

Drechsler and Kattel (2008) also enter into the discussion on theoretical aspects of the NWS pointing out that "… in recent years the concept has also obtained a strong normative meaning for middle-income and less-developed countries". Having said that, they see a direct linkage between sustained economic growth and Weberian PA. However, they also emphasise the almost mystical approach used by some PA reformers connected with the concept of "modernisation" (Drechsler & Kattel, 2008, p. 97), suggesting that in reality, very often, "modern" means nothing more than merely "fashionable". In this context, Drechsler and Kattel argue that the NWS itself is "new", and therefore it requires the inclusion of other aspects than just "a strong state" into the discussions, e.g. civic society and participation (2008, p. 97).

Finally, Drechsler and Kattel (2008) declare the death of NPM: for scholars it is not "a viable option" anymore. Is the NWS the answer? According to Drechsler and Kattel, the NWS has become an empirical-analytical model and not a normative one, but at the same time it can used for explanation of what is happening in Europe. Since it is a fairly new phenomena and its research agenda is still being formed, it will require more research (Drechsler & Kattel, 2008, p. 98).

Within the first wave of research publications regarding the NWS we should also note the work of Laurence Lynn (2008). That author, taking a slightly different perspective than that of the above-mentioned researchers, i.e. that of American scientists, points out that a number of Neo-Weberian theories of management are, in fact, different varieties of institutionalism (especially historical institutionalism, which, following in Weber's footsteps, underscore the issues of legitimacy of the state (Lynn, 2008, in: Białynicki-Birula *et al.*, 2016).

Finally, it should be noted that the term "Neo-Weberian State" does not appear often in research journals from the field of public management (Białynicki-Birula *et al.*, 2016), especially after the first wave of discussion provoked by Pollitt and Bouckaert in 2004 and continued in the third edition of their *Public Management Reform: A Comparative Analysis* in 2011. We should however pay special attention to a fairly new publication (from 2016) by a group of researchers from the Cracow University of Economics who published a book titled *The Neo-Weberian State. Towards a new paradigm of public management?* (Mazur *et al.*, 2016). This book is one of the first attempts in the world of synthesis of the NWS, presenting the current state of research, driving research questions and examples of more field-oriented, sectoral analysis of NWS applications. As Mazur points out, the publication, among other goals, aims to determine "the extent to which the Neo-Weberian approach to public management has the status of a model, and the extent to which it has acquired the intrinsic characteristics of a paradigm" (2016, p. 218). Moreover, it tries to provide rationale for 'conceptual limitations and challenges faced by Neo-Weberian state theory in the process of its evolution from a model toward a public management paradigm' (Mazur *et al.*, 2016, p. 98). Mazur argues that the NWS not only can attract the interest of researchers, but also be applicable in practice. Its strong connection with European roots, its modern and political friendly approach, professionalism and the sense of public service ethic may be valuable insights into the daily operations of any level of public management. It still lacks strongly consolidated methodological assumptions, so it is closer to a paradigmatic stage than to a paradigm, but its strength lies in its practical advantages and eventually it can replace its main competitors: NPM and Public Governance, especially in Europe (Mazur, 2016, p. 224–225).

To summarise the literature review of the discussion of the NWS let us quote the original description of the Weberian and Neo-Weberian basis of the NWS presented by Pollitt and Bouckaert (2004, pp. 99–100).

Weberian elements of the NWS:

- reaffirmation of the role of the state as the main facilitator of solutions to the new problems of globalisation, technological change and shifting demographics;
- reaffirmation of the role of representative democracy (central, regional and local) as the legitimating element within the state apparatus;
- reaffirmation of the role of administrative law – suitably modernised – in preserving the basic principles pertaining to the resident-state relationship, including equality before the law, legal security and the availability of specialised legal scrutiny of state actions;
- preservation of the idea of a public service with a distinctive status, culture and terms and conditions.
- 'Neo' elements of the NWS:
- a shift from an internal orientation with regard to bureaucratic rules towards an external orientation related to meeting residents' needs and wishes – the primary route to achieving this is not the use of market mechanisms (although they may occasionally come in handy) but the creation of a professional culture of quality and service;
- supplementing (not replacing) the role of representative democracy by a range of devices for consultation with and the direct representation of residents' views (this aspect being more visible at the local level in the northern European states and Germany than in Belgium, France or Italy);
- in the management of resources within government, a modernisation of the relevant laws to encourage a greater orientation on the achieving of results rather than merely the correct following of procedures – this is expressed partly in a shift in the balance from ex-ante to ex-post controls;
- professionalisation of the public service, so that the 'bureaucrat' becomes not simply an expert in the law relevant to his or her sphere of activity,

but also a professional manager, oriented to meeting the needs of his/her residents/users.

In the face of the conceptual and practical problems encountered with the old Weberian public administration and new public management approaches a number of theorists have developed other conceptualisations of public management. These approaches do not yet form, as in the case of NWS, a coherent paradigm and they have different frames of reference, but some commonalities can be identified which set them apart from earlier traditions and provide the basis for a coherent alternative.

The New Public Governance (NPG) approach proposed by Osborne (2006, 2010) adopts a very different starting point from the two earlier public management traditions. In contrast with the emphasis on bureaucratic hierarchy and administrative interest as the defining features of the old public administration and the managerial discretion and contractual mechanisms associated with NPM, the NPG approach places residents, rather than government, at the centre of its frame of reference. In a similar vein, Bourgon (2007) calls for a New Public Administration theory that is grounded in the concepts of citizenship and the public interest, expressed as the shared interests of residents, rather than as the aggregation of individual interests determined by elected officials or market preferences. The centrality of residents as co-producers of policies and the delivery of services fundamentally distinguishes the New Public Governance approach from both the statist approach associated with the old public administration and market-based NPM approaches, rather than simply proposing a new form of public administration.

NPG incorporates a number of features of this emerging literature: the state is both plural (in that public service delivery is undertaken by multiple interdependent actors) and pluralist (in that multiple processes and inputs shape policy making). In this respect Bourgon (2011) highlights the fragmentation of policy space with the emergence of multiple actors and jurisdictions alongside growing interdependence between actors operating at local, national and global levels. Government is treated as just one actor alongside others engaged in policy deliberation and service delivery and is no longer assumed to be the sole or predominant force shaping public policy and implementation (Weber & Khademian, 2008). According to Denhardt and Denhardt (2000, p. 553), "the policies that guide society are the outcome of a complex set of interactions involving multiple groups and multiple interests ultimately combining in fascinating and unpredictable ways" (see Robinson, 2015).

An interesting and fairly new approach, though not widely covered in available research in Poland, is the concept of hybrid public management (administration). "Something is hybrid when it results from a cross or a mixture of different types, when it is composed of disparate elements that do not come from one single logic or one single genre" (Emery & Giauque, 2014, p. 23). As Emery and Giauque (2014) assert, the 21st century has brought widely spread differentiated approaches to modernisation of public administration in various geographical, political, and cultural settings. Using a post-modernist approach, the authors try to look at the ways various mechanisms are deconstructed and reconstructed in their working environment. The result of these processes is that we do witness the rise of models that are not purely aligned with one particular model or paradigm but in reality form sometimes unique solutions that are applicable to particular situations and sectors.

Another example of important research input related to the notion of **hybrid public administration** is an article published by Tom Christensen and Per Laegreid (2011), in which the authors ask questions connected to transformative trends in public organisations resulting in the creation of hybrid models. The transformation processes are aimed at balancing NPM and post-NPM reforms. The authors claim that reforming NPM does not necessarily mean replacing it with

> … post-NPM reforms, NPM reforms are being modified and adjusted through the addition of new and different post-NPM reform measures. The

> result of such a process is increased complexity and hybridity in the organization of the public sector but also increased turbulence, because the trade-off and balance between different principles tends to change over time, between countries and across policy areas (Christensen & Laegreid, 2011, p. 15).

Material and methods

The author has developed two research hypotheses. The first hypothesis is as follows: the water and sewage sector in Poland after 1990 (i.e. the beginning of the political, economic, and social transformation) was predominantly constructed based on the NPM model. The second is that, due to the arising deficiencies and critique of the sector, certain changes are being introduced that in reality bring the concept of public management of the sector closer to post-NPM paradigms. The main question though, regarding the second hypothesis, is whether the changes will result in the introduction of a pure NWS paradigm into the water and sewage sector in Poland or if the end result will be an introduction of a hybrid model.

The research methods are based on basic quantitative data regarding the water and sewage sector in Poland, namely statistical data available from the Polish Central Statistical Office, which can indicate the organisational and legal form of entities responsible for public services in the area of water supply and sanitation. Analysis of the above will make possible understanding of the management trends in the sector. The assumption here is that a growing number of commercial companies in the sector, owned by local municipalities, shows a tendency for transforming the sector using the NPM model. Additionally, the research will be supported by analysis of a unique publication on management practices in the water and sewage sector published in 2018 *Zarządzanie przedsiębiorstwem wodociągowym. Uwarunkowania funkcjonowania i współczesne koncepcje zarządzania*[2] (Chudziński *et al.*, 2018a) and *Zarządzanie przedsiębuorstwem wodociągowym. Społeczne aspekty funkcjonowania i pomiar efektywności*[3] (Chudziński *et al.*, 2018b). While the above-mentioned two publications have used a managerial approach, the presented findings and data make possible the drawing of interesting conclusions regarding methods of public management and with no doubt can used for deeper analysis of models for public services provision.

Moreover, especially w the analysis of the second hypothesis, the research process will include an analysis of the legal framework (this will include the recent changes in the relevant legislation) as well as data collected by the author from interviews with a group of managers of water and sewage companies in Poland. An important factor of the research process is that the author was for nine years a deputy president of the board of a medium-sized water and sewage company in Poland and directly involved in the all managerial process typical for companies from that sector. The author works, on a regular basis, as a consultant for the Polish Waterworks Chamber of Commerce and co-operates with water and sewage companies in Poland. Finally, for thorough analysis of the second hypothesis, a comparison of public management approaches (Table 2) developed by Białynicki-Birula *et al.*[4] (2016) will be used. The main assumption for the analysis is that the recent changes introduced by the Polish government to the legislation, the amended *Prawo wodne*[5] (2018b) and the amended *Ustawa o zbiorowym zaopatrzeniu w wodę i zbiorowym odprowadzaniu* ścieków[6] (2018), and creation of a new central administrative unit, *Państwowe Gospodarstwo Wodne Wody Polskie*,[7] will direct

[2] English translation: Management of a water company. Operational context and modern concepts of management.

[3] English translation: Management of a water company. Social aspects of functioning and measurement of effectiveness.

[4] This Table was originally developed by Maciej Frączek in 2015.

[5] English translation: Water law.

[6] English translation: Act on collective water supply and collective sewage disposal.

[7] English translation: The State Water Company Polish Waters

the public management practice in the water and sewage sector towards post-NPM paradigms.

Results and discussion

Public services in the area of water supply and sewage are the responsibilities of municipalities (Sejm, 1990, Art. 7.1.3). These can be delivered by using various organisational forms and it is for each particular municipality to decide which organisational form from those permitted by applicable law is used. The most common are two options: a municipal budget establishment and a commercial company (almost 70% of these entities in 2017). The main difference between the above two is their legal status: a municipal budget establishment is an element of administrative structure of a particular municipality and its budget is directly connected with the budget of that municipality and its strategic and operational management is in hands of a mayor. It is a typical organisational form for smaller municipalities, usually rural ones. The second option is a commercial company,a standard company governed by the Code of Commercial Companies and can be either a joint-stock company (*spółka akcyjna*) or a private limited company (*spółka z ograniczoną odpowiedzialnością*). In this case the municipality owns stocks or shares, but a company is an independent entity treated as a normal subject of market rules. In reality, taking into account specifics of the services provided by these companies, they are in most cases, and behave as, natural monopolies.

The Statistical Yearbook of the Republic of Poland 2017 (Central Statistical Office, 2018a) contains data on the structure of entities of the national economy only for the water supply sector, sewage and waste management, reclamation. In order to obtain more detailed data, a study titled *Structural changes of groups of entities in the national economy in the REGON register, 2017* (Central Statistical Office, 2018b) was used. According to data from the Central Statistical Office (Central Statistical Office, 2018a, p. 72), in 2017 the REGON register listed a total of 1,865 business entities registered in the field of collection, treatment and supply of water, including:

- 755 commercial companies,
- 532 municipal budget establishments,
- 307 civil water companies,
- 228 natural persons conducting business activity,
- 34 civil partnerships,
- three state enterprises and
- six co-operatives.

The table below presents a comparison of the number of individual entities registered in the discussed section in the years 2007–2017.

The data presented above shows that between 2007 and 2017 Polish water and sewage sector experienced a gradual shift towards commercial companies. We should also mention here that these companies account for the majority of the market, as they are much more popular in medium-sized and large municipalities (see Chudziński, 2018). The observed trend shows a growing confidence of municipalities in using organisational forms that are typical for business. Commercial companies behave as regular businesses and are supposed to observe measurements typical for businesses, e.g. margin, profitability, revenue, return on investment, etc.

Careful analysis of the above-mentioned publication (Chudziński, 2018) brings more conclusions confirming the first hypothesis. The existing functioning of water and sewage companies is determined by economic indicators, and the management methods used are taken almost directly from classical business models. Companies in this sector use methods for project management and strategic management, implement business-typical models, use outsourcing and modern management concepts, pursue investment policy, use banking products typical for enterprises operating in the business reality, apply modern human resource management practices, manage assets, implement innovation policies and pursue R&D activities. Benchmarking is becoming a popular method of assessing the performance of water companies. Although Chudziński (2018a, 2018b) does not explicitly describe the model as

Table 1. Entities registered in the section for water and waste water management in the years 2007–2017

	Municipal budget establishment	Commercial companies	Civil water companies	Natural persons cunducting a business	Civil partnerships	State enterprises	Cooperatives	Total
Number of entities 2007	592	486	252	108	26	5	2	**1,471**
Structure of entities in 2007	40.24%	33.04%	17.13%	7.34%	1.77%	0.34%	0.14%	100%
Number of entities 2008	635	514	263	121	28	3	3	**1,567**
Dynamics 2008/2007	107.26%	105.76%	104.37%	112.04%	107.69%	60.00%	150.00%	**106.53%**
Structure of entities in 2008	40.52%	32.80%	16.78%	7.72%	1.79%	0.19%	0.19%	100%
Number of entities 2009	652	536	261	154	28	3	3	**1,637**
Dynamics 2009/2008	102.68%	104.28%	99.24%	127.27%	100.00%	100.00%	100.00%	**104.47%**
Structure of entities in 2009	39.83%	32.74%	15.94%	9.41%	1.71%	0.18%	0.18%	100%
Number of entities 2010	666	549	262	198	27	3	3	**1,708**
Dynamics 2010/2009	102.15%	102.43%	100.38%	128.57%	96.43%	100.00%	100.00%	**104.34%**
Structure of entities in 2010	38.99%	32.14%	15.34%	11.59%	1.58%	0.18%	0.18%	100%
Number of entities 2011	661	586	266	216	32	3	3	**1,767**
Dynamics 2011/2010	99.25%	106.74%	101.53%	109.09%	118.52%	100.00%	100.00%	**103.45%**
Structure of entities in 2011	37.41%	33.16%	15.05%	12.22%	1.81%	0.17%	0.17%	100%
Number of entities 2012	620	627	272	236	32	3	3	**1,793**
Dynamics 2012/2011	93.80%	107.00%	102.26%	109.26%	100.00%	100.00%	100.00%	**101.47%**
Structure of entities in 2012	34.58%	34.97%	15.17%	13.16%	1.78%	0.17%	0.17%	100%
Number of entities 2013	582	656	286	244	33	3	3	**1,807**
Dynamics 2013/2012	93.87%	104.63%	105.15%	103.39%	103.13%	100.00%	100.00%	**100.78%**
Structure of entities in 2013	32.21%	36.30%	15.83%	13.50%	1.83%	0.17%	0.17%	100%
Number of entities 2014	569	675	290	248	33	3	3	**1,821**
Dynamics 2014/2013	97.77%	102.90%	101.40%	101.64%	100.00%	100.00%	100.00%	**100.77%**
Structure of entities in 2014	31.49%	37.35%	16.05%	13.72%	1.83%	0.17%	0.17%	100.77%

Table 1 – continued

	Municipal budget establishment	Commercial companies	Civil water companies	Natural persons cunducting a business	Civil partnerships	State enterprises	Cooperatives	Total
Number of entities 2015	558	703	299	243	33	3	4	**1,843**
Dynamics 2015/2014	98.07%	104.15%	103.10%	97.98%	100.00%	100.00%	133.33%	**101.21%**
Structure of entities in 2015	30.28%	38.14%	16.22%	13.19%	1.79%	0.16%	0.22%	100.00%
Number of entities 2016	543	745	308	236	34	3	5	**1,874**
Dynamics 2016/2015	97.31%	105.97%	103.01%	97.12%	103.03%	100.00%	125.00%	**101.68%**
Structure of entities in 2016	28.98%	39.75%	16.44%	12.59%	1.81%	0.16%	0.27%	100.00%
Number of entities 2017	532	755	307	228	34	3	6	**1,865**
Dynamics 2017/2016	97.97%	101.34%	99.68%	96.61%	100.00%	100.00%	120.00%	**99.52%**
Structure of entities in 2017	28.53%	40.48%	16.46%	12.23%	1.82%	0.16%	0.32%	100.00%

Source: Own work based on data from the Statistical Yearbooks for 2010, 2009, 2008, 2007, 2006, 2005, 2004, 2003, 2002, 2001, 2000 and CSO papers: Structural changes of groups of national economy entities in the REGON register, 2011, 2012, 2013, 2014, 2015, 2016, 2017.

New Public Management, the tools and methods used in the enterprises directly derive from this approach as the dominant one.

However, recent years have brought a growing criticism of the practices used by companies in the water and sewage sector in Poland. While there has been obvious growth in the quality of water and its supply system, as well as treatment of sewage, (see Chudziński, 2018a, 2018b) the main problem, which has become a subject of social and political discussion, has been rising charges for water and sewage treatment. The majority of water and sewage companies made use of the availability of European Union financial support for expansion of water and sewer networks, and water and waste-water plants. These intensive investments combined

Table 2. Characteristics of Water and Sewage Sector in Poland based on a Comparison of New Public Management (NPM), Public Governance (PG), and the Neo-Weberian State (NWS)

Dimensions	**NPM**	**PG**	**NWS**	***Water and Sewage Sector***
Role of government	Steering	Mediation	Rowing and steering	*Rowing and steering, growing control*
Management principles	Exchange	Network	Hierarchy with permissible elements of exchange and network	*Hierarchy with admissible elements of exchange and network*
Management mechanisms	By objectives, standardisation of public services, quality management, privatisation, deregulation, contracting, public-private partnership, vouchers	Debate, reconciliation, compromise	Legislation, regulation	*By objectives, standardisation of public services, quality management, privatisation, deregulation, contracting, public-private partnership, vouchers, but with growing role of centrally arranged control mechanisms*
Rationality	Economic	Reflexive	Formal, but does not exclude reflexive (long-term perspective) or economic (competence)	*Formal, but does not exclude reflexive (long-term perspective) or economic (competence)*
Key resources	Economic	Sharing (public, private, social)	Public	*Public*
Success criteria	Effectiveness and efficiency of allocation of goods and quality of public services	Implementation of arrangements made by consensus		*Effectiveness and efficiency of allocation of goods and quality of public services at affordable prices controlled by central government*
Organisational structure	Decentralised	Fluid, task- and process-based		*Decentralised*
Relationship with the environment	Partially inclusive	Inclusive	Exclusive in the sense of adopting the role of initiator and arbiter	*Exclusive in the sense of adopting the role of initiator and arbiter (state)*
Learning objectives	Problem solving on the basis of economic criteria	Innovative problem solving on the basis of economic and social criteria		*Innovative problem-solving on the basis of economic and social criteria*
Dominant public policies	Regulatory	Regulatory, institutional	Redistribution and regulation	*Redistribution and regulation*

Table 2 – contineud

Dimensions	NPM	PG	NWS	*Water and Sewage Sector*
Problems to which the model responds	Inefficiency of the public sector and the lack of focus on the most important objectives	Exclusive hierarchically and ensuing rigidity of administration-resident relations	"Hollowing-out of the state", weaker position within the EU (European Commission negotiates directly with regions), pressures of globalisation (without a strong state corporations acquire a dominant position), capture by interest groups, withdrawal from essential functions undermines the (democratic) legitimacy of power	*Exclusive hierarchically and ensuing rigidity of administration-resident relations*
Emphasis on legitimacy of authority	No emphasis (*implicitly-assumed* legitimacy)	Problem is recognised, focus on networks and quasi-market relationships, in which the state is one of the players	A matter of paramount importance, representing a return to the traditional model of administration. Legitimacy, i.e. credibility and predictability constraints on arbitrariness in the provision of public services	*A matter of paramount importance, representing a return to the traditional model of administration – legitimacy, i.e. credibility and predictability constraints on arbitrariness in the provision of public services*
Performance in administration models in different countries and at different levels of development	Works in countries with a well-developed tradition of efficient administration (initially in the Weberian spirit) – Continental Europe to a lesser extent than Anglo-Saxon countries	Works in countries with a well-developed tradition of efficient administration (initially in the Weberian spirit) – Continental Europe to a lesser extent than Anglo-Saxon countries	NPM and public governance do not work in models lacking impartial administration and respect for the state (CEE countries) – the Neo-Weberian state must restore them	*Currently unsure – needs more observations*
Timespan of activities and consequences			More focus on a long-term strategic perspective, which is important within the context of more complex tasks of the state – strategic nature	*Currently unsure – needs more observations*
Attitude to the state and society as autonomous entities capable of rational management of public affairs	No implicit assumption of traditional administration, or lack of recognition of the role of the state as capable of governing effectively (USA)	Contractual, based on the postulated principle of equality of parties	Idea of serving society, which is supposed to determine the quality of administrative action, instead of market	*Idea of serving society, which is supposed to determine the quality of administrative action, instead of market*

Source: own work based on Białynicki-Birula *et al.* (2016, pp. 48–49).

with growing expenditure on financing of own resources matching EU grants (usually 30%–40% of the overall expenditure) promptly caused rapid increases in the fees charged by companies. In many cases such growth reached 60% in just a few years (see NIK, 2016) and that caused an intense debate on the model of the operations of the sector in Poland.

As a result of political and social pressure the Polish government decided to take certain steps aimed at redirecting the model of the management of water entities into a more controlled and predictable system. The new regulations, introduced in 2017 and 2018 (Sejm, 2018a, 2018b), brought radical change in several aspects. The three major changes include:

– the introduction of a central office verifying and approving fees for every municipality (until 2018 the fees for water and sewage removal were decided locally by municipality councils based on recommendation from the companies/entities themselves);
– the fees are fixed for three years;
– a governmental office dealing with all water-related issues was created (a merger of several separated institutions responsible for various aspects of water management).

While the introduced changes may initially be viewed as 'technical', in reality they represent a major shift in the overall approach in the provision of public services in the area of water and sewage. For more than 20 years the entire model was based on a concept of decentralisation and exclusive responsibility of local communities, i.e. municipalities, for resolving most of the issues related to water and sewage. As a result of a series of "failures" of the system (growing charges for customers/residents) and wider social and political criticism, the central government, supported by the majority in Parliament, started a process which in practice will result in a much deeper transformation of the concept of public management in this sector. The changes will result in the centralisation of decision-making processes, the introduction of (central) control measurements and a growing need for verification of expenditures at the local level. Will this mean that the NPM model will vanish? Not necessarily, this new situation will bring a need for a new management perspective, but the directions are still unknown and should be thoroughly researched.

The above Table 2 may be a useful tool for examining the reality of public management practice in water and sewage companies in Poland.

Conclusion

Referring to the hypotheses mentioned in the methodical part of this article, it should be noted that the water and sewage sector in Poland after 1990 developed to a large extent based on the New Public Management model. From the very beginning, methods typical for standard businesses were introduced in the sector and organisational forms that were commonly used originated from business. The overall concept of public service delivery with regards to water and sewage sanitation in Poland was designed around decentralisation and passing the responsibilities for the efficiency of the services to local governments. This included the power to determine fees for consumers/residents. Due to the emancipation of the companies and increasing expenditures on investments (usually based on the real needs of the local communities), the pure business approach brought public pressure on revisiting the models used in this sector.

The second hypothesis focused on the shift from NPM towards other post-NPM paradigms, especially the NWS. While certain elements of the NWS approach are clearly visible in the new regulations and practices (centralisation of some functions, increase in forms of central control, growing role of central public administration, legalism and rule of administrative law), at the same time there are still strong elements of NPM existing in the sector (economic calculation, professional management, primacy of efficiency and effectiveness); we may come to the conclusion that NPM is not being replaced by the NWS or other paradigms, but the system is gradually

changing towards a hybrid model. In other words, NPM is not dying, but is being given a new face, more directed to centralised legal provisions, with increasing control of the state, but pure elements of business practices are still in force, representing the NPM model.

We should also note that it is still at a quite early stage: the changes were introduced recently and the whole sector is still in the process of early transformation, therefore further investigations and more advanced research will be needed in order to not only to identify the trends but also to provide some more reasonable predictions for the future.

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Municipally owned companies as executors of tasks pertaining to municipal waste management[1]

Abstract

Objectives: Services provided in the general economic interest constitute a fairly significant research field with regard to public management, involving different local governing tasks, including municipal waste management. Full management of municipal waste services is carried out by individual municipalities (from July 2013 onwards), therefore the purpose of the article is pinpointing the municipal waste management providers (Municipally Owned Companies) in Polish provincial cities, including those using the in-house model.

Research Design & Methods: The process of identifying the entities engaged in waste management as municipally owned companies (referred hereafter as "MOCs") is preceded by a theoretical analysis of the peculiarities of municipal waste and municipal waste management, both of which are regarded as crucial and having imminent economic and social consequences. During that theoretical analysis the authors applied the European Union hierarchy on waste management in establishing the following waste management criteria: achieving of a specified rate of recovery and recycling; standardisation of the magnitude and structure of waste flows directed to incineration plants and landfill; and comprehensiveness of the waste management system.

Findings: It has been established that MOCs (including those operating via in-house orders) are the principal type of entities which provide municipal waste management services in the cities included in the analysis.

Implications / Recommendations: The article shows a clear need for further research on the efficiency of MOCs regarding the provision and performance of public utility services and tasks.

Contribution / Value Added: The conducted research provides evidence supporting the statement that municipal waste management is performed mostly by MOCs, which are entrusted with public utility tasks through tender procedures or, more frequently, via in-house orders. Such entities co-operate with the private sector, with private sector firms often owning specialised installations.

Article Classification: Research article

Keywords: Municipal waste, municipally owned company, MOC, municipal waste installations, waste management, in-house orders

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Introduction

Services executed and provided in the general economic interest constitute one of the major challenges for public management disciplines. These services are provided within various constitutional frameworks of state tasks. These undertakings include the municipal economy, which cover the subject of tasks performed within a given municipality.

The purpose of this article is the identification of individual economic entities operating as municipally owned companies in municipal waste management within Poland's provincial cities and the subsequent recognition of those operating an in-house orders system. Prior to the recognition, theoretical analysis related to details and specifics of municipal waste and waste management has been conducted, from the economic and social point of view. In theoretical analysis, procedural hierarchy pertaining to waste management within the EU has been applied, resulting in the selection of municipal waste assessment criteria.

Those benchmarks include the achieving of a specified rate of waste recovery and recycling, standardiation of the magnitude and structure of waste flows directed to landfill and incineration plants, and the comprehensiveness of the waste management system (determined by the quality and capacity of available installations for waste processing). It has been established that municipally owned companies (MOCs) are the basic form of economic entities managing municipal waste in the cities included in the analysis. It should be noted that some municipalities entrust the management of integrated systems of municipal waste to their affiliated companies by applying an in-house orders procedure. Further assessment of MOCs regarding the provision of public utility tasks requires in-depth efficiency studies, which have been already undertaken by the authors and their team.

Municipal waste management – a social and macroeconomic problem

Municipal waste is a macroeconomic problem as it represents an integral component of production and consumption processes, as well as investment, and hence creation and division of GNP. This component occurs within the entire economic and social lifecycle, from the acquiring to the utilizing of renewable and non-renewable resources, as well as the utilising of other ingredients from natural processes. On the one hand it is the source of wastefulness and on the other it can be regarded as an efficient environment protection tool for the current and future generations. Municipal waste can be treated as an economic resource as well as a genuine business. Its creation is inevitable but we are able to restrict its size by changing both our consciousness and lifestyle as well as our consumption structure (prevention activities). This approach constitutes a paradox pertaining to the fact that business and the economy exerts pressure to generate a bigger supply of waste as it is essential for generating income from the construction of installation and processing plants. Such behaviour is described in economics as:

- the herd effect, i.e. the majority of people acts in the same way as other people, and so do what they do;
- the tragedy of the commons, i.e. the maximum exploitation of the common good, e.g. forests and public spaces where people deliberately leave waste disregarding the knowledge and education of the emitting parties;
- NIMBY syndrome (Folmer *et al.*, 1996, p. 471), objections to certain developments in one's neighbourhood, while acknowledging the fact that such developments are indeed beneficial.

The definition of waste management includes any ventures, activities or procedures that are associated with avoidance and restriction of waste generation, the neutralisation and utilisation thereof, and the recycling of secondary resources and subsequent utilisation. This definition includes

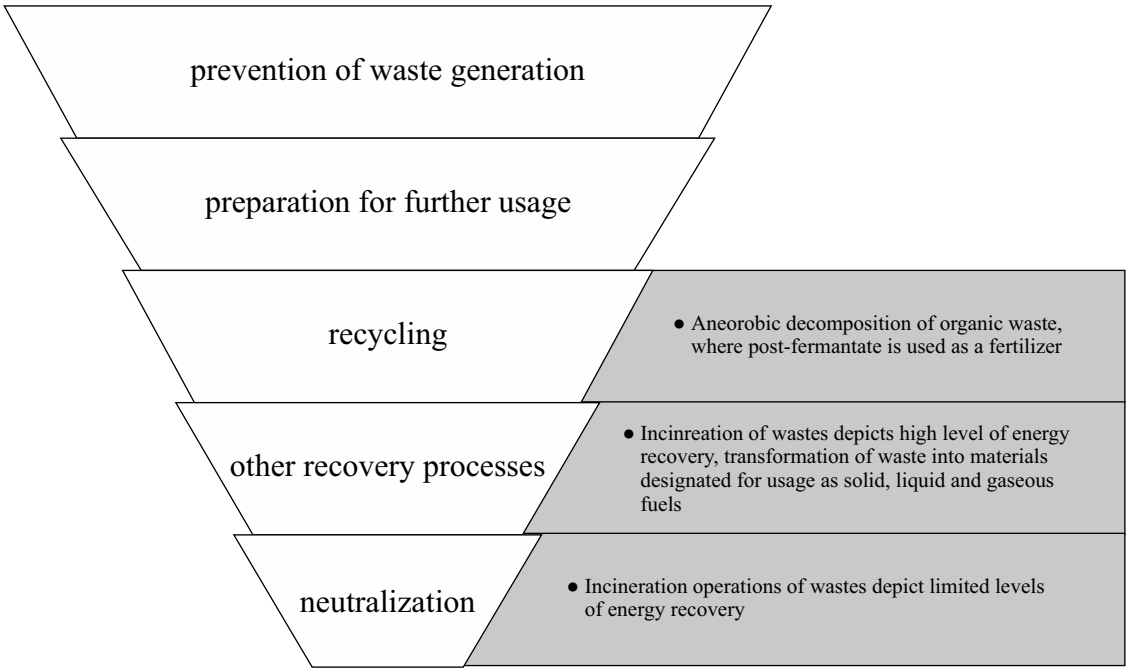

Figure 1. Waste process structure within the European Union hierarchy of waste management

Source: Own work based on the Bulletin of European Parliament Committee, 2017.

both activities in terms of planning as well as the realisation of undertakings and the control thereof. The definition of waste management (as per the Journal of Laws of 2013, item 21, as amended) specifies and lists activities, such as collection, transport, neutralisation and the recovery of waste, including supervision of the above-mentioned activities.

The revised concept of waste management developed over the last decade is submitted to the closed economic cycle within the European Union and is based on new paradigms. This list includes the following:

– waste not only constitutes pollution and hazards to the environment, but it is also a source of resources and materials, as well area of nature responsibility;
– storage becomes obsolete as there is more use of recycling and energy recovery, as well as standardisation of waste disposal and processing;
– integrated and sustainable waste management.

The European Union hierarchy in terms of waste management procedures in general (including municipal waste) constitutes the basis for implementing these paradigms (Figure 1). This hierarchy is an essential condition for shaping waste management within a closed cycle, achieved through energy recovery from waste process management, which consequently improves energy efficiency of the conversion of generative factors into useful energy.

Municipal waste management processes belong to a set of public utility tasks which are executed and provided in the common economic interest (Famielec, 2017, pp. 117–150). In this article municipal waste management is viewed through an entity approach, meaning that it refers to the performers and recipients of regulatory tasks. These entities represent individual municipalities and municipally owned companies which are the main stakeholders in terms of integrated systems of waste management.

Municipal tasks pertaining to waste management and the handing over thereof to MOCs

Generated waste requires appropriate management, which since 1 July 2013 has been the responsibility of municipalities in Poland (Journal of Laws 1996, No. 132, item 622, as amended). Each municipality is the fundamental statutory organ which has the power to execute municipal waste management tasks.

The goal of the municipal council here is to produce its own statute pertaining to cleanness and order within the municipality's administrative borders (after consulting the district sanitary inspector). That statute determines specific rules and regulations which include collection and receipt of municipal waste generated in households, hazardous waste, repair and construction waste, and bulky waste.

The performance of tasks by the municipality related to waste management can be carried out in two ways:

– system management and bidding tenders, the purpose of which is to select entities that provide services directly by the municipality;
– entrusting system management tasks to other legal entities via a bidding tender or non-bidding offer (i.e. an in-house order system).

The in-house model constitutes a specific procedure that entrusts management or other system service(s) regarding waste management to a MOC, which must satisfy certain conditions:

– it must be a municipal property during the entire period of accomplishment of public utility tasks;
– it must be controlled by the municipality to the same extent as its organisational departments, by maintaining control over the statutory organs thereof;
– the company's activity must be performed on behalf of the municipality (as its owner).

The in-house orders model has been applied in waste management in large Polish cities since at least 2010. In cities such as Kraków, Białystok, Bydgoszcz and Szczecin the in-house orders approach has been used by MOCs for tasks normally performed by the municipality itself. This specifically pertains to the construction, financed by EU subsidies, of installations for the thermal processing of municipal waste (Podgórski, 2016, p. 31; Famielec J. & Famielec S., 2017, pp. 151–172).

Directive 2014/24/EU obliged Member States to incorporate the settlements concerning in-house orders into the public order system. In Poland the introduction of those settlements has been carried out in 2016 based on the amended act governing public orders (Journal of Laws of 2016, item 1020), which entirely replaced previous municipal obligations in terms of performing construction work, providing maintenance or utilisation of regional installations for processing municipal waste by applying competitive modes. This act also overruled the regulation pursuant to which MOCs can collect municipal waste from property owners only in cases where they have been chosen by way of tender.

The new regulations assume the following procedure: in the event that the municipal council passes a resolution regarding the collection of municipal waste from property owners (other than those inhabited by the residents thereof), either the mayor or the head of the municipality is required to organize a tender for waste collection from those property owners or to collect and subsequently manage the waste. Therefore this resolution excludes the option to entrust these tasks via the in-house mode (Ziemski *et al.*, 2016, p. 34). Subsequently the municipality is responsible for organising the collection of municipal waste from property owners (those inhabited by the residents thereof) by granting them public orders pertaining to the collection and management of waste (Journal of Laws 2016, item 1020). In addition, the principle regarding the collection of waste from mixed neighbourhoods (both inhabited and uninhabited properties) by a single subject has been regulated. In this case the municipal council is to consider whether the subject will be selected via the in-house mode or through a tender procedure.

The role of MOCs in municipal waste management in provincial Polish cities

The selection of a market entity for the performing of a municipality's own tasks needs to comply with the principle of organisational independence of administrative autonomy units, which has been constitutionally guaranteed. This is manifested by the possibility of selecting such an organisational and legal arrangement through which tasks will be performed, with an emphasis on the fact that government intervention will be kept to a minimum (Ziemski *et al.*, 2016, p. 36). If the municipality is interested in doing so, it can use the in-house model, based on pre-determined principles; however, it is not required to do so. Exemptions from this rule have been outlined in two cases mentioned below, where it is necessary to hold a tender procedure in terms of the act regarding public orders:

– the absence of an own MOC which meets specified conditions pertaining to the provision of services in terms of collection of municipal waste, or lack of willingness to perform such tasks via in the in-house order model;
– for uninhabited properties – in-house orders are not allowed in terms of collection and management of waste generated at these properties.

An important condition that has to be satisfied by a MOC which is authorised to receive in-house orders is that more than 80% of activity of the legal entity (pursuant to Directive 2014/24 of the European Parliament and of the Council) and more than 90% (based on the amended law in Poland governing public orders) must be performed within the boundaries of the municipality which is placing the order and which has the control over it, or by other legal entities which are controlled by the institution placing the order. It must be emphasised that control in this case is defined as holding 100% of the shares in a company by the controller thereof. The relevant percentage of the executor's activity can be measured by total turnover (i.e. sales income from goods and services) or by costs (i.e. income cost) within the three years immediately prior to the placing of the order (Gumniak & Mądry, 2016, p. 84).

The limited length of this article enables only listing of synthetic results presented in extensive studies previously undertaken by the authors in form of a table which identifies all of subjects that perform tasks pertaining to waste management in major Polish cities, including their proprietors (table 1). In response to the questions presented in this article's title regarding the role of MOCs, it should be mentioned here that in major Polish cities most often municipalities entrust waste management systems to MOCs, and only in rare cases is this function performed by designated municipal departments. In the same fashion, the collection of waste, including the transport thereof to regional installations, is frequently contracted out to MOCs. Some companies subcontract these services (i.e. tender procedure) to private entities. This usually takes place when the municipality entrusts public utility tasks related to integrated waste management systems in cities.

The organisational structure of municipal waste management is dominated by commercial entities (limited liability and, to a much lesser extent, joint stock companies). It should be noted that the above-mentioned municipalities hold either all or most shares of the individual economic entities referred as municipally owned companies MOCs in cities. In most cases these companies are also investors in or main users of new installations, including thermal waste processing. This creates an integrated system of waste management. Other legal forms of entities within the waste management system include inter-municipal associations and privately-owned companies (the main component in public-private partnership).

It is interesting to know how MOCs are established. In one approach they are established from basics: companies are created by the municipality in order to perform specific tasks (i.e. construction of incineration plant). The other approach consists of the establishing of such companies through the transformation of budget

Table 1. Entitles operating in the municipal waste management sector (including their proprietors) in Polish provincial cities

Voivodship	City	Subject responsible for municipal waste management operation	Tasks realised in waste management sector
Dolnośląskie	Wrocław	Ekosystem PLC. – a municipally owned company (in which the city holds the vast majority of shares)	– organisation of tenders – supervision of municipal waste collection – cleanness maintenance in the city of Wroclaw – analysis of waste management status
Kujawsko-pomorskie	Bydgoszcz	Inter-community Complex for Waste Neutralisation ProNatura PLC – a municipally owned company (100% of the shares held by Bydgoszcz Municipality)	– collection of waste for neutralisation, processing, segregation, collection of waste from direct producers – city cleaning RIPOK: – landfill – thermal processing – composting of green waste
Kujawsko-pomorskie	Toruń	Municipal Waste Treatment Company PLC municipally owned company (100% of the shares held by Torun Municipality)	– waste disposal RIPOK: – landfill – sorting plant – composting plant
Lubelskie	Lublin	Lubelskie Municipal Mangement PLC – a municipally owned company (100% of the shares owned by Lublin Municipality)	– PSZOK management
Lubuskie	Gorzów Wielkopolski	Joint Municipality Association MG-6 – a municipally owned company (includes shares of five adjoining rural municipalities along with the city of Gorzow Wlkp) INNEKO PLC (100% of the shares held by Gorzów Wlkp. Municipality)	– Waste management system – organising tenders – furnishing individual properties with waste bins – limited waste transport – road maintenance (INNEKO subsidiary) RIPOK: – mechanical and biological processing – sorting plant – composting plant – animal burial site
Lubuskie	Zielona Góra	MunicipalityManagement Department (budgeted)	– collection and waste management in the area of Zielona Góra City – RIPOK management
Łódzkie	Łódź	Municipal Cleaning Company – Łódź PLC – a municipally owned company (100% of the shares held by Łódź Municipality)	– Waste disposal (services two out of five zones in Łódź) – Specialised vehicles for street cleaning and snow removal – Leases sorting plant from Łódź Municipality – Manages the landfill near the sorting plant
Małopolskie	Kraków	Municipal Cleaning Company – PLC in Kraków – a municipally owned company (100% of the shares held by Kraków Municipality) Małopolskie Municipality Waste Management PLC – a subsidiary of Municipal Cleaning Company	MCC as the entity which manages ZSGOK in Kraków Municipality: – prepares and transfers to the municipality project resolutions and resolution amendments in terms of municipal waste management;

Table 1 – continued

Voivodship	City	Subject responsible for municipal waste management operation	Tasks realised in waste management sector
		Kraków Municipal Holding Inc. (Kraków Municipality holds shares in four separate municipally owned companies) Thermal Waste Processing Department – part of Kraków Municipal Holding	– operates a system responsible for submitting declarations pertaining to fee amounts for waste management; – ensures municipal waste management in the appropriate installations (including its own Barycz landfill, composting plant, segregation plant); – prepares and organises tenders pertaining to municipal waste collection from property owners as well as waste management; – supervises performance of tasks entrusted to subjects responsible for municipal waste collection from property owners and subjects that are responsible for waste management, as well as fulfilling obligations by property owners in terms of adequate waste management; – is responsible for governing PSZOK; – operates and coordinates informational and educational activities with emphasis on selective collection of waste; – performs annual analysis of the status of municipal waste management, in order to verify technical and organisational feasibility in terms of waste management (Kraków Municipal Holding); – delivers waste to the incineration plant based on the contract and amounts that have been ordered by Kraków Municipal Holding.
Mazowieckie	Warszawa	Municipal Cleaning Company in the city of Warsaw PLC – a municipally owned company (100% of the shares held by the Capital City of Warsaw)	– waste collection from major parts of the city – operation of both landfill and mechanical and biological processing installation – management of the Department for Neutralization of Solid Municipal Waste, including the development thereof – Municipal Waste Management Bureau operates waste management in the city of Warsaw
Opolskie	Opole	Municipal Department PLC – a municipally owned company (100% of the shares held by Opole Municipality)	– manages the Waste Processing Centre (RIPOK) – supervision pertaining to performing of the contract between the enterprise which is responsible for collection of waste and Opole Municipality, which is responsible for municipal waste management system
Podkarpackie	Rzeszów	Urban Public Utilities Company – Rzeszów PLC – a municipally owned company (100% of the shares held by Rzeszow Municipality)	– collection of waste – RIPOK: sorting plant, composting plant
Podlaskie	Białystok	Trade Service and Production Company "LECH" PLC – a municipally owned company (100% of the shares held by Bialystok Municipality)	– comprehensive municipal waste management system including the municipal marketplace – operation of Municipal Waste Management Bureau

Table 1 – continued

Voivodship	City	Subject responsible for municipal waste management operation	Tasks realised in waste management sector
			– organisation and supervision of the proper functioning of collection and transport of waste – control pertaining to regularities regarding the performing of waste collection services from property owners – selective waste collection – education and information activities – operation of Department for Municipal Waste Neutralisation in Bialystok – operation of Municipal Waste Utilisation Department in Hryniewice (sorting plant, PSZOK, composting plant, landfill site)
Pomorskie	Gdańsk	Utilization Department PLC – a municipally owned company (100% 100% of the shares held by Gdansk Municipality) Gdansk Roads and Greenery Department (an organisational and budgetary unit of the City of Gdansk)	UD: – municipal waste management operation – recovery of resources – transfer of waste for neutralisation – safe storage of waste in a situation where there is a lack of options to manage it in a different way – landfill and RIPOK management GRGD: – organisation and supervision of collection, transport and transfer of municipal waste – collecting charges in terms of municipal waste management based on the principles determined by the Gdansk City Council Waste collection is carried out by SUEZ PÓŁNOC PLC
Śląskie	Katowice	Urban Public Utilities Company PLC in Katowice – a municipally owned company (100% of the shares held by Katowice Municipality)	– waste collection – road cleanness maintenance – waste processing in the following installations: Department of Recycling and Waste Neutralisation, mechanical and biological processing, landfill – PSZOK operation The system is managed by Katowice Municipal Office, Department for Environment Development, Municipal Waste Management Office.
Świętokrzyskie	Kielce	Waste Management Office PLC in Kielce – municipally owned company (100% of the shares held by Kielce Municipality) – this company was established by way of the transformation of Municipal Waste Management Department into a commercial law company	– management and operation of Promnik and Barycz landfills – neutralization of waste through landfilling (Promnik) – selective collection and sorting of package waste – production of electric energy and thermal energy from renewable energy sources – unit responsible for operation and management of declarations and tenders is Kielce City Hall, Department for Communal Services and Environment Management Collection of waste is carried out by a private company, Eneris Surowce Inc.

Table 1 – continued

Voivodship	City	Subject responsible for municipal waste management operation	Tasks realised in waste management sector
Warmińsko-mazurskie	Olsztyn	Municipal Waste Management Department PLC in Olsztyn – a municipally owned company (the shareholders are 37 municipalities) Olsztyn Communal Department PLC – a municipally owned company (100% of the shares held by Olsztyn Municipality)	MWMD: – carries out an EU financed project titled "Municipal Waste Management System in Olsztyn. Construction of Waste Neutralization Department" – operates mechanical and biological waste processing with materials' recovery – serves RIPOK function OCD: – establishment and operation of PSZOK, – maintains installation for neutralisation of medical and veterinary waste – collection of waste is carried out by private company (currently Remondis AG & Co KG – branch located in Olsztyn)
Wielkopolskie	Poznań	Waste Management Department in Poznan, PLC – a municipally owned company (in which Poznan Municipality holds shares) The company has been established as a result of transformation of self-governmental budget department under the name: Waste Management Department in Poznan which was subsequently liquidated in order to establish a commercial law company, which performs own tasks that pertain to public utility issues and are performed within the City of Poznan (municipal waste management). An inter-municipal association named "Waste Management in Poznan Aglomeration" Thermal processing of waste installation via the PPP model: the city of Poznan and a private partner (SUEZ Zielona Energia)	WMD: – waste landfill – bio-composting plant – PSZOK units "Waste Management in Poznan Aglomeration": – introduced new system for municipal waste management – settled bidding tenders for waste collection and management – elaborated the statute regarding maintenance of cleanness and order in individual municipalities – charge amounts have been set for collection of municipal waste including method of their calculation. Waste collection has been contracted out to private companies (i.e. Remondis AG & Co KG – Poznań Branch, Sanitech Poznań PLC, Alkom – a limited partnership company, Poznań Branch). PPP tasks: – project, construction, financing and exploitation of incineration plant Poznan has handed over to a private partner the building site for installation construction, meanwhile the private partner, using its own capital has realized the investment and will have the right for exclusive management over a 25-year period. City authorities in signed the PPP contract and are required to provide a certain waste mass. The city of Poznan and its partner settle investment costs and current operation expenses of the incineration plant. In return for providing waste SUEZ Zielona Energia has been required to transfer income from electric and thermal energy sales to the city budget.

Table 1 – continued

Voivodship	City	Subject responsible for municipal waste management operation	Tasks realised in waste management sector
Zachodnio-pomorskie	Szczecin	Waste Neutralisation Department PLC in Szczecin – a municipally owned company (100% of the shares held by Szczecin Municipality) Municipal Cleaning Company PLC – a municipally owned company (51% of the shares held by Szczecin Municipality and 49% of the shares held by Suez Polska PLC	WND has been appointed by the City of Szczecin to prepare and carry out the construction of the Thermal Neutralisation of Waste Department. MCC is responsible for disposal of waste. RIPOK units in Szczecin are managed by privately owned companies (SUEZ Jantra PLC. and Remondis AG & Co KG REMONDIS – Szczecin Branch).

Abbreviations used in the table which are explained in detail here:
PSZOK – selective municipal waste collection points
RIPOK – regional installations for municipal waste processing
ZSGOK – integrated municipal waste management system

Source: own work based on available websites of municipalities and own research (updated as of 2017).

departments or by way of the privatisation of state companies. Detailed discussion of these issues is beyond the scope of this article.

Development challenges for MOCs within the waste management system in Poland

In Poland the total generation of municipal waste was 9.8 million tons in 2004 and had risen to 11.8 million tons in 2016. Forecasts for waste mass generation predict a distinct increase (by both 2020 and 2030) despite the anticipated fall in population, especially in Poland's large cities.

The main challenges with regard to management of municipal waste flows involve the achieving of technical, ecological and organisational requirements. The National Waste Management Plan requires the following conditions to be met by 2022 (Official Gazette of the Republic of Poland 2016, item 784):

– achieving of a recycling rate and preparation for further use of such materials as paper, metals, artificial materials and glass from municipal waste in a minimum amount equal to 50% of the mass thereof by 2020;
– ensuring the share in terms of the mass derived from thermal processing of municipal waste and waste derived from municipal waste processing in relation to waste generation is not greater than 30% by 2020;
– recycling of 60% of waste by 2025 and 65% of waste by 2030;
– reduction of municipal waste storage to a maximum of 10% by 2030;
– introduction of a selective collection system for green waste and other bio-waste by the end of 2021 in all municipalities around the country.

The recent dynamics pertaining to the introduction of these standards is shown in Figure 2. There are obviously positive changes in terms of the structure of municipal waste management, namely a clear decline in the dynamics of waste storage and the share thereof of waste collection in relation to population and collection of waste mass. One of the drawbacks, however, is the higher emission of waste per person in relation to general population dynamics.

Achievable standards in municipal waste management have been presented in the above-mentioned authorised documents. In 2017 two crucially important pieces of legislation regarding

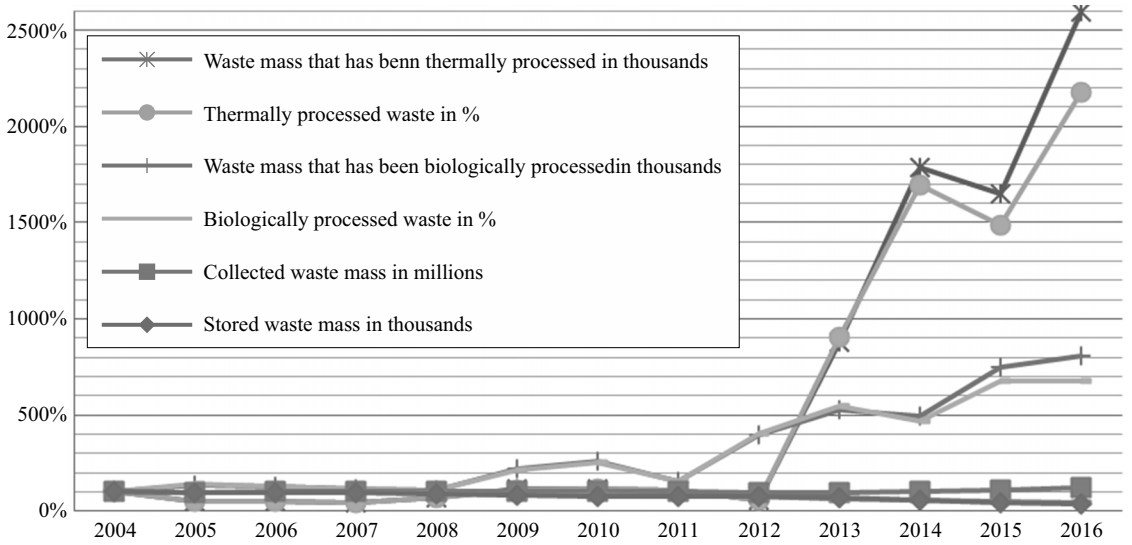

Figure 2. Dynamics pertaining to waste mass that has been thermally and biologically processed and undergone storage in the years 2004 to 2016 (base year 2004 = 100)

Source: own work based on collected data.

municipal waste management were published, which enforce an increase in both investments and utilisation costs, including costs for storage of municipal waste. The first piece of legislation pertains to the ordinance of the Minister of the Environment dated 29 December 2016, which refers to selective collection of waste (Journal of Laws of 2017, item 19). As a result it is necessary to provide the investment costs for the organisation of five points of waste collection (including rubbish bins). The second piece of legislation pertains to the Council of Ministers Ordinance dated 6 March 2017, which amends an ordinance related to environmental utilisation fees (Journal of Laws of 2017, item 723). As a result, there is a charge increase with regard to waste storage and a need to reduce waste designated for landfill (a mandatory requirement based on the EU hierarchy of waste management).

The validity of entrusting the aforementioned tasks to MOCs is based on previous experiences concerning the market operations thereof. It is assumed that in-house orders support the exclusion of unethical entities (which dispose municipal waste via channels not meeting the accepted standards) and ensure effective control of the entire process pertaining to the collection, processing and storing of waste. Here it is worth mentioning the key components, which include guaranteeing proper hierarchy of waste management, caring for natural environment and social communities, standardisation of municipal waste management, and restriction of unnecessary costs (Uciński, 2016, p. 104).

Certain assessments refute the threat of market monopolisation and loss of the effects regarding market competition. Some economists believe that the market bidding system does not ensure durable competition. Market mechanisms cease to exist, and subsequently market segmentation occurs and then monopolies and oligopolies are created, with no control over quality of service and prices (Uciński, 2016, p. 104). Examples from Sweden, Germany and Denmark indicate that transformation of market mechanisms into municipal control has in the case of municipal waste management had

crucial significance for environment protection and proper waste management. It is estimated that currently private subjects are still in demand with regard to this market segment, because MOCs are still not present in a large number of municipalities in Poland. Waste processing installations (e.g. incineration plants) operate, due to their high capital intensity, in most cases as private entities. Municipal waste is disposed by MOCs, mostly after biological and mechanical processing.

In-house orders are also used in other sectors of municipal management, such as public transport, collective water supply and sewage collection, construction and sport facility management (Podgórski, 2016, p. 31).

Concluding Remarks

This article has shown that MOCs are a common legal and organisational form in terms of meeting technical, ecological and economical standards for municipal waste management in all Polish provincial cities that have been included here. It should be noted that individual municipalities use such entities as private subjects, inner-community associations and own organisational departments in order to achieve waste management goals. Municipalities more frequently entrust tasks to MOCs in terms of cleanliness maintenance and order. This is carried out by operating within the in-house order model. The scope of this article does not consider both an environmental and economic assessment of in-house order procedures, but, instead, it focuses on identifying entities which perform the tasks and duties pertaining to municipal waste management in major Polish cities.

The authors of this article (along with other team members) have performed research on the efficiency of MOCs, including those which operate via the in-house order model. The main goal thereof is verifying previous research statements which suggest that companies dealing with waste management are among the most profitable. This particular case, alongside possible acquirement of public funds, results subsequently in healthy competition in terms of finding beneficial legislative solutions that regulate this particular industry.

It is assumed that MOCs perform municipal waste management tasks much cheaper and more efficiently. Consequently, they achieve better environmental results (e.g. recovery rate and recycling) in the waste management sector (Uciński, 2016, p. 90). The strength of private subjects is, nevertheless, significant; at present total municipal waste collection is estimated to be within the range of 50% to 60%. Utilisation of in-house orders by municipalities should be carefully considered and should consider the interests of all participating entities and stakeholders, as self-government entities are often critical to in-house orders. The municipality which commissions the tasks expects a lower price level, which often leads to decrease in service quality and standards of waste collection. According to researchers, in the waste management sector many administrative authority companies are poorly invested and cannot compete with privately owned companies in terms of equipment service standards. On the other hand, MOCs that provide waste management services have been furnished with municipal property. That property is expanded by public financing and its utilisation is essential in terms of economic and social factors.

The above-mentioned arguments and reflections require in-depth studies. It is necessary to study this problem, as waste management issues in individual municipalities are becoming increasingly sophisticated. There is a falling population (community residents which pay waste management charges) and a simultaneously a substantial increase in total waste mass per person. At the same time both technological and environmental standards of municipal waste management require more capital-intensive installations and waste management processes. This includes waste utilisation – modern landfills that use energy recovery systems – and subsequently that triggers new challenges for municipalities. The authors' own research suggests that MOCs (including those operating in the in-house order model) can be more effective than market-owned

companies. This research argument remains open for further debate and this article justifies only the need to pose these questions.

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The specific nature of knowledge transfer in municipal organisations

Abstract

*Objectives***:** The main objectives of this paper are to determine the conditions of the transfer of knowledge in municipal enterprises, to identify the subprocesses of knowledge transfer along with the methods used in their implementation, and to determine the rules for knowledge transfer recommended for use in municipal enterprises.

*Research Design & Methods***:** The literature studies method, the critical analysis method and a case study was used with the support of surveys and in-depth interviews.

*Findings***:** It was found that in the studied organisation – Cracow Waterworks – there are favourable conditions for knowledge transfer. One takes actions aiming at shaping organisational culture based on mutual trust, focused on promotion and support of transfers, including knowledge sharing. It seems that the management, in its daily organisational behaviour and actual attitudes, meets standards and values focused on team forms of work organisation, the creation of a supportive atmosphere, respect for the rule of reciprocity, promoting altruistic attitude in sharing knowledge, and building positive the reputation of a given employee. Indisputably, these phenomena are catalysed by a sense of safety of employment and average job seniority.

*Implications / Recommendations***:** Main recommendations for the surveyed organisation (Cracow Waterworks) are to focus on acquiring knowledge from outside the organisation and sharing, especially tacit knowledge. It was noticed that in the studied municipal company knowledge is shared only through direct interactions, most often through individual and direct contact, often in the form of tacit knowledge. More efforts are needed to expand the organisational level of knowledge sharing - here support can be sought via technical solutions, preserving the context of motivational system and the organisational culture. A reliable social and technical infrastructure of the knowledge environment should also be built. Another important challenge should be to construct a system of knowledge transfer that takes into account its inter-organisational dimension. It is recommended to shape an appropriate organisational culture – culture promoting knowledge – and create an appropriate context for the implementation of this process with the participation of knowledge.

*Contribution / Value Added***:** Taking into account the conditions of operation of municipal enterprises, general principles and detailed guidelines have been formulated to support the effective implementation of the knowledge transfer process in these specific organisations operating in the special context of municipal management.

*Article Classification***:** Research article

Keywords: knowledge transfer, knowledge transfer methods, knowledge sharing, municipal organisations

JEL classification: L22, M19, P43

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Introduction

At present, the way business activities are run is determined by, inter alia, the focus on intangible resources. A prominent place of the pantheon there of has been taken by knowledge (Liyanage *et al.*, 2009, p. 118), treated as a catalyst for learning or innovation (Al-Busaidi & Olfman, 2017, p. 110). The new economy, with its new rules, is defined as a knowledge-based economy, and practical and effective knowledge management has become a challenge.

So far one can identify at least three generations of knowledge management. The current one draws attention to distribution of knowledge, which fosters evolutionary development. Interdependence, context, content and level of abstraction are treated as the keys to knowledge transfer and sharing (Fic, 2012, pp. 371–383).

A company operating in the knowledge-based economy is more and more often treated as a system processing and using knowledge rather than the one transforming raw materials into finished products. Thus nowadays access to information and knowledge is key for a company to succeed in operating in the knowledge society (Skrzypek, 2013, p. 1). It must obtain new knowledge, stimulate the diffusion thereof and, ultimately, transform it into new solutions. For this reason, it is assumed that among the most beneficial strategies of knowledge management are those based on creating new knowledge and the transfer thereof.

A problem with knowledge transfer in municipal organisations fits into each generation of knowledge management. Within the third one it focuses on transferring knowledge between agents of this process in the form of municipal organisations and wider society, different aspects of learning using tacit knowledge sharing, as well as on conditions and instruments for the effective implementation of knowledge transfer anchored in the idea of democratisation of knowledge in municipal economy.

As available studies dedicated to knowledge diffusion do not include practical verification of key issues in the implementation of knowledge transfer in the example of municipal organisations, it was decided to focus on this process by analysing knowledge in the context of operation of these particular companies.

Therefore the purpose of the study is to review the literature with regard to knowledge transfer as a subprocess of knowledge management, as well as to verify its course in the example of a municipal organisation. In addition, the following detailed objectives were set:

- determination of conditions of knowledge transfer in municipal organisations in Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji S.A. (The Municipal Water Supply and Sewage Company – Cracow Waterworks);
- identification of knowledge transfer subprocesses and methods used during their implementation;
- selection of principles of knowledge transfer recommended for use in municipal organisations.

It was assumed that studies conducted in municipal organisations will make possible the specifying of conditions related to operations of companies of that type as knowledge-oriented companies. Analyses of performed explorations were to contribute to the real image of social and technical context of knowledge transfer in municipal organisations.

The essence and conditions of knowledge transfer in organisations

Transfer of knowledge, as a process with its participation, is most often perceived as a catalyst of effective management of an organisation, (Sinell *et al.*, 2017, p. 1460), a canvas for organisational learning (Dziadkiewicz *et al.*, 2017, p. 49) and a factor that determines the level of innovation of the given company (Tworek *et al.*, 2016, p. 352; Luo *et al.* 2017, p. 2). Theory of organisational knowledge makes it possible to understand that an organisation should be perceived as a knowledge distribution system (Nogalski *et al.*, 2014, p. 168) and that knowledge diffusion is treated as a driving

force of the contemporary economy (Michalak & Zagórowski, 2017, p. 300).

The literature on the subject analyses distribution of knowledge in the form of knowledge transfer processes in a multi-faceted way. In the first place, knowledge transfer is studied as one of the key processes involving knowledge compliant with operational functions of knowledge management (Intezari *et al.*, 2017, pp. 492–515; Kumar, Ganesh, 2009, pp. 161–174). One successively considers its specific nature with regard to levels of its implementation: inter-organisational (individual and joint) (Nakauchi *et al.*, 2017, pp. 766–782; Bendkowski, 2016, p. 11–23) and inter-organisational (bi-lateral and in an inter-organisational network) (Wang *et al.*, 2017). Additionally, factors and barriers for the implementation of knowledge transfer are analysed (Ishihara & Zolkiewski, 2017, pp. 813–824; Mariano & Awazu, 2017, pp. 779–795; Joia & Lemos, 2010, pp. 410–427), model presentations of the process of its distribution are verified in practice (Štrach & Everett, 2006, pp. 55–68; Narteh, 2008, pp. 78–91; Hutzschenreuter & Horstkotte, 2010, pp. 428–448), and a focus is also put on tools supporting knowledge transfer (Kuciapski, 2017, pp. 1053–1076).

While initial discourses were dominated by theoretical deliberations, with time practical explorations of analysed problems began, applying them to relevant economies (Dziadkiewicz *et al.*, 2017, pp. 49–61), regions (Sagan *et al.*, 2011, pp. 85–98), sectors (Kania *et al.*, 2010, pp. 22–28; Dee & Leisyte, 2017, pp. 355–365), types of companies (Ratajczak, 2006, pp. 113–120) and even organisational units of certain companies (Midor *et al.*, 2015, pp. 135–144).

Finally, it is assumed that knowledge transfer is a dynamic process which is the basis for gathering of knowledge, and its combination and use in practice. That is an important element of numerous strategies used as part of knowledge management (Skrzypek, 2013, p. 2). Nonetheless, its definition varies (tab. 1). It is frequently wrongly identified with knowledge sharing (Intezari *et al.*, 2017, p. 502), which is its subprocess (Liyanage *et al.*, 2009, p. 122). Diffusion, as a process based on knowledge, is a platform between those who produce knowledge and information and those who need it (Janczewska, 2016, p. 166). It may proceed beyond formal structures, as well as without any significant participation of managers, it is a continuous process, an inherent part of the organisation's life (Jędrych, 2016, p. 18).

Assuming that information is a tool for building knowledge, knowledge transfer can be treated as a multi-dimensional process consisting of four subprocesses: acquisition of knowledge (acquisition of knowledge from diverse sources, both external and internal), knowledge disclosure

Table 1. Review of knowledge transfer definitions

Liyanage *et al.* (2009, p. 122)	Transfer of knowledge from one place, person or form of ownership to another. Proof of the effectiveness of transfer of knowledge is its creation and application in the organisation.
Kumar & Ganesh (2009, p. 163)	The process of exchanging tacit or explicit knowledge between two agents, during which one agent intentionally receives and makes use of knowledge delivered by the other. Additionally, the role of the agent may be performed by an individual, team, organisational unit, organisation or an inter-organisational network.
Al-Salti & Hackney (2011, pp. 455-456)	All the individual or organisational actions undertaken by the recipient in order to identify and acquire potentially useful knowledge generated by the sender thereof.
Kim *et al.* (2016, p. 960)	Flow of knowledge by specific channels between units or departments, the main challenge of which is transferring knowledge of proper content, is a relevant context.
Kuciapski (2017, p. 1054)	A process in which the recipient or the addressee of knowledge, being a person, group or a department, acquires experience of the sender.

Source: Own study on the basis of literature as indicated in the table.

(knowledge transfer directed to particular persons), knowledge distribution (advanced forms of sharing of knowledge characterised by a broader sharing range aimed at the creation of generally available resources from this knowledge), as well as knowledge sharing (mutual transfer of knowledge by people in the process of communication) (Mikuła, 2011, pp. 64–65).

Additionally, under implementation of the knowledge transfer process, knowledge sharing is treated as the main ingredient thereof, which is of paramount importance insofar as other subprocesses are concerned (Arif *et al.*, 2017, p. 171). It is assumed that it is a process based on mutual transfer of personalised tacit and explicit knowledge. It may proceed through the process of communication or during mutual co-operation through dialogue, observation or acquisition of common experiences. It includes at least two-sided action in which units mutually exchange their knowledge and, at the same time, jointly generate new knowledge. It is necessary for the transformation of individual knowledge into organisational knowledge (Kożuch & Lenart-Gansiniec, 2016, p. 306).

In theory there are many types of knowledge transfer, depending on the criteria adopted. For instance, taking into account the type of distributed knowledge, one indicates tacit and explicit knowledge. When focusing on the range of knowledge flows transfer may relate to knowledge within a company and knowledge obtained from the outside. When analysing agents of knowledge one identifies transfers at the individual, group, organisational and intra-organisational levels (see Kumar & Ganesh, 2009, p. 165). There is also active and passive knowledge transfer (Bendkowski, 2016, p. 19).

When focusing on the nature of knowledge, the method of its transfer, the repeatability of circumstances in which knowledge is required and the degree of similarity of tasks for which it is required, one may identify serial, faithful (intuitive), distant (imitating), strategic and expert knowledge transfer (Kania *et al.*, 2011, p. 23).

The major groups of factors determining the effectiveness of the transfer of knowledge in an organisation include (Luo *et al.*, 2017, pp. 3–4; Dee & Leisyte, 2017, pp. 357): the organisation's capacity with regard to organisational learning; the level of dependence between the sender and the addressee of knowledge; knowledge as a special resource (viscosity, ambiguity); as well as the level of development of social and technological infrastructure of the given knowledge environment. Knowledge diffusion is thus conditional in the given organisation upon (Skrzypek, 2013, p. 3): greater awareness of the need for development, co-participation and participation; continuous learning; creativity; mutual trust; mutual goals and interests; the need for thinking; the desire to explore and discover; as well as awareness that one's place in the market is defined today by intellectual richness.

Knowledge transfer is, therefore, a dynamic process requiring time, and readiness for co-operation, which is conditional upon people, the quality of their knowledge and their openness and flexibility (Leszczyńska & Pruchnicki, 2017, p. 1199). It allows an organisation to develop competence, increase the company's value, and maintain its competitive advantage (Al-Salti & Hackney, 2011, p. 457). Its purpose is to provide knowledge to places where it is most needed (Jędrych, 2016, p. 18). It requires "Knowledge about how to transfer knowledge" (Liyanage *et al.*, 2009, p. 124), thus it also focuses on instruments improving its transfer.

Taking into account the special nature of specific types of knowledge, tools supporting the transfer of tacit and explicit knowledge should be different. With regard to improvements in the transfer of tacit knowledge it is recommended to use: managerial, relaxing, interpersonal and decision-making training sessions; as well as psychological workshops and techniques of creative thinking; creation of intellectual potential; and development of emotional intelligence. With regard to stimulating diffusion of explicit knowledge recommended instruments take the form of: a formal and in-

formal network of relationships; instruction; documentation; training; and sharing experiences during meetings (Nogalski *et al.*, 2014, p. 164).

When focusing on subprocesses of knowledge transfer one may use different methods and techniques supporting the effective implementation of each of them (see Mikuła, 2011, p. 66), as a result of which the organisation has an opportunity to retain at least a part of knowledge possessed by employees who leave it.

Bases of functioning of municipal companies

Municipal organisations are peculiar economic organisms with typical characteristics resulting from the combination of social interests with economic effectiveness and function in the context of the municipal economy. This economy is characterised by specific qualities in the form of: commonness and availability of services; coincidence of production, supply and consumption; a high degree of non-flexibility of demand in respect of price; high maintenance costs; organisational-managerial complexity and diversity; focus on satisfaction of the collective needs of residents; significant diversity of demand over time; as well as high capital intensity of the investment cycle (Kozłowski, 2015, p. 11).

A characteristic feature of municipal organisations is also the fact that they operate on the free market, competing with the private sector or creating natural monopolies. Their formation results from the lack of physical possibilities to create parallel technical infrastructural systems (e.g. water or sewage works). For this reason, due to the technical and economic conditions in which municipal companies operate it is economically unjustified to compete with them (Kołos-Trębaczkiewicz & Osuch-Pajdzińska, 2015, p. 12). At the same time, these units, due to their subjection to public procurement law, have a limited choice of entities with which they can co-operate.

Conditions for natural monopoly are fulfilled to the greatest extent by water and sewage management companies, heat distribution companies and some of public transport companies, since they have both attributes related to economies of scale (one manufacturer produces a given production at total costs lower than most competitors can), economies of scope (consumption of services generated at a distance from the place of consumption) and economies of rationalisation (copying of devices is irrational) (Grzymała, 2010, pp. 39–40).

Due to the presented characteristics of the municipal economy, as well as the conditions for organisations operating in it, one of challenges that faces managers of these entities is the application of modern technologies, as well as innovative organisation and management methods. Another task is the development and modernisation of a subjective area, which requires high capital outlays with simultaneous social pressure on maintaining high quality services and lowering the prices of municipal services.

Requirements with regard to survival and development rooted in the economic dimension of the functioning of these organisations force them to focus on knowledge, especially the transfer thereof, for example in the form of technology transfer or good management practices. After all, municipal companies must care about increasing value, improving competitiveness, providing services of the highest quality and constructing key competences. Knowledge transfer focuses on such actions, both in the inter- and intra-organisational dimensions.

The Municipal Water and Sewage Company – Cracow Waterworks as an object of the study

Empirical explorations were conducted in the autumn 2017 in The Municipal Water and Sewage Company – Cracow Waterworks, a municipal company which is part of Krakowski Holding Komunalny S.A. Enquiries were based on a survey questionnaire consisting of 31 questions concerning both the organisation as well as the attitudes and actions of employees and their superiors focused

on knowledge transfer. The questionnaire was subsequently supplemented with in-depth interviews.

The respondents in the studies conducted at The Municipal Water Supply and Sewage Company were persons performing managerial functions at middle management level. The selection of the sample was purposeful and the chosen persons were employees who have experience (job seniority), have risen in rank by a few levels or positions on their career path and are intermediaries in the transfer of knowledge and information between employees at the strategic level of management and the operational level.

On the basis of answers supplied via the questionnaire by 76 persons meeting all of the above-mentioned criteria the profile of the studied group was developed. The profile consists of elements such as age, job seniority, gender, type of position, and education. The most numerous group are persons aged 41 to 60 years (66% of those surveyed); with 18% being no older than 40 and 16% being at least 61 years old. The length of service (job seniority) of the examined persons in the organisation is, on average, 19 years, while the average job seniority taking into account the course of the entire professional career is 27 years. For 30% of the examined persons the organisation in which they work is their first job, for the remaining 70% it is a second or further job. 24% of the studied group are women and 76% are men. 60% of those surveyed are persons holding managerial positions, while 40% are specialists with managerial competences. Almost half the group (49%) have a Magister degree and all of those persons were employed under contracts of employment.

At the initial stage of the study an attempt was made to diagnose how the organisation is perceived by the employees and what the managers' attitude towards knowledge transfer is.

The main part of empirical exploration was devoted to identification of the scope of the implemented process of knowledge transfer, with a breakdown into its subprocesses and tools supporting their progress. According to the proposed treatment of knowledge transfer as one of operational functions of knowledge management, namely one of processes involving knowledge which may assume the form of knowledge acquisition, distribution of knowledge and knowledge sharing, a separate analysis covered the instruments used when implementing each of these subprocesses. Focus was also put on verification of the conditions of the implementation of their course.

Knowledge transfer in The Municipal Water and Sewage Company – Cracow Waterworks

30% of those surveyed felt that the organisation is focused on results and reliable performance of tasks. The second position with regard to the number of answers (26%) is occupied by an indication that the organisation is a place to exchange knowledge, learn and improve. The next most frequent answer was given by 24% of the respondents and indicated the validity of hierarchy, control and dominant formal dependencies. 21% of answers stated that the organisation is a place of co-operation and creativity. 36% of respondents felt that the management supports and encourages staff to share knowledge, 32% stated that the management gives freedom in organising the work, 29% said that managers prefer independent execution of tasks and clear scope of responsibilities and only 3% indicated rivalry as a method supported by the management. At the same time, 33% of those surveyed said that managers play an active part in the processes of sharing knowledge; 28% said managers create conditions to share knowledge; and 19% said managers encourage staff and inspire then to act. 20% of the respondents felt that their managers are focused on results rather than on how those results are achieved (Figure 1).

The image of the examined organisation is completed by the conclusion of 5% of the respondents that the primary goal of the organisation is to create good working conditions. According to 21% of the respondents the most important

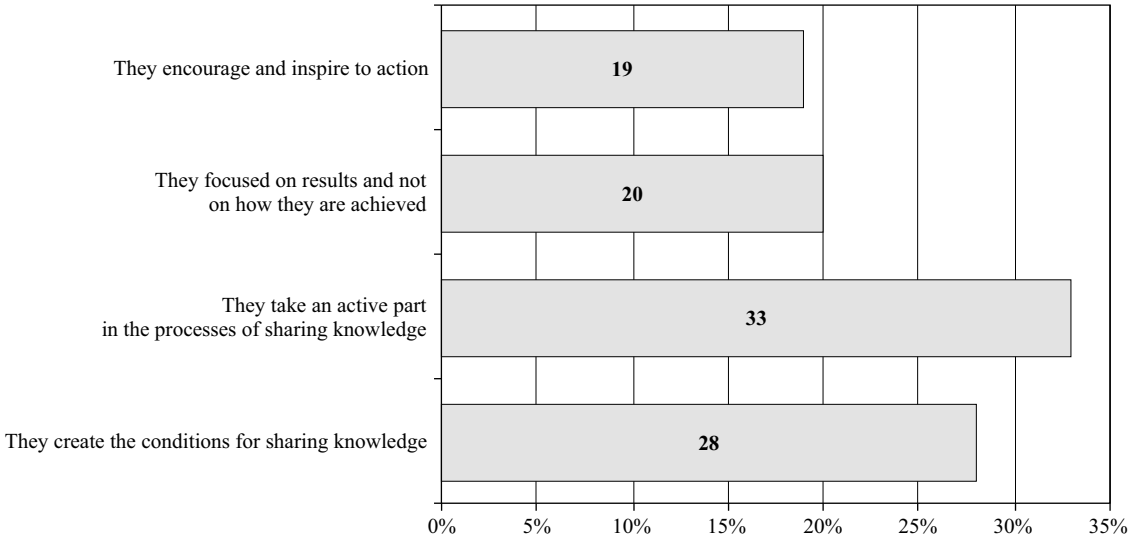

Figure 1. Managers and knowledge transfer

Source: prepared by the authors.

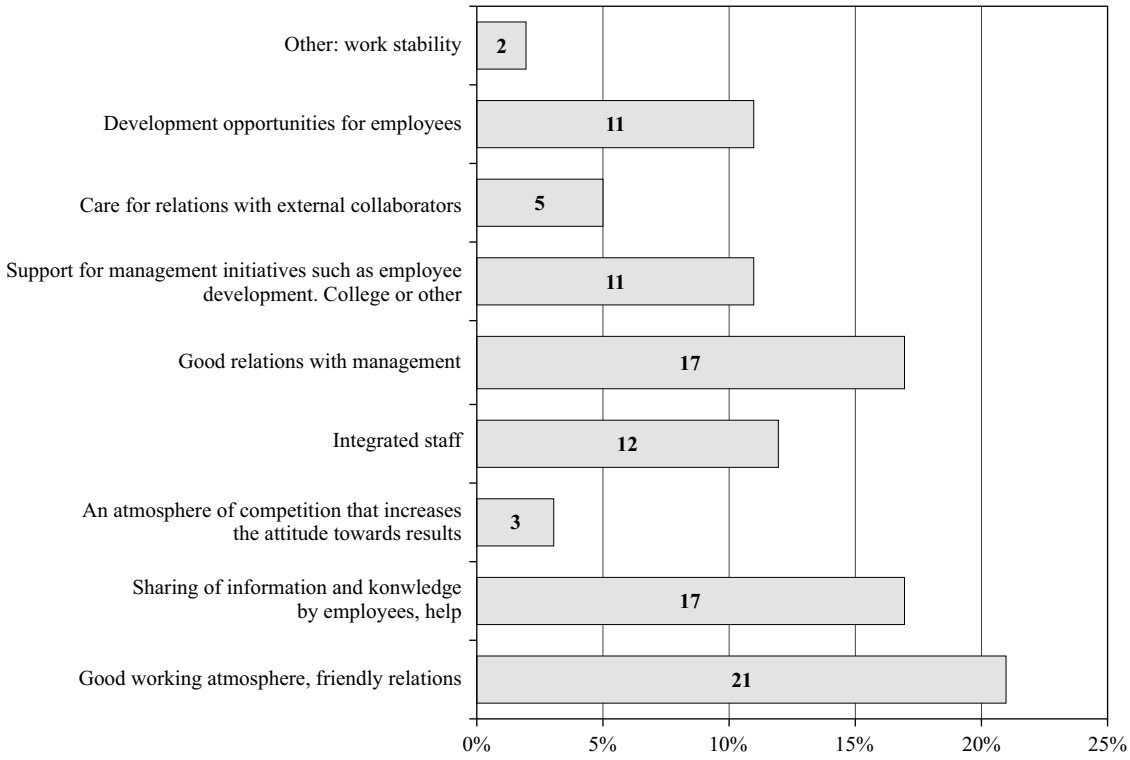

Figure 2. Advantages of the organisation in the opinion of its employees

Source: prepared by the authors.

advantages of the organisation are good atmosphere in work and friendly relations (Figure 2).

In the opinion of the respondents most often applied method of knowledge acquisition is instruction at work, receiving 30% of the responses (Figure 3), whereas the least frequently used instruments are: marketing research, 1%; coaching, 1%; e-learning, 1%; analysis of complaints, 2%; analysis of the register of transactions, 2%; and benchmarking, 2%.

In the case of knowledge sharing methods respondents indicated only: instruction at work (40% of answers); meetings and briefings (30%); operation manuals of products (18% of selections); and sharing of technical documentation (8%). Only 4% of answers indicated training.

Dissemination of knowledge in The Municipal Water and Sewage Company – Cracow Waterworks is conducted with the use of the instruments shown in Figure 4.

In the case of the examined municipal company knowledge is shared primarily by way of meetings and briefings (46% of responses), as well as on seminars, symposiums and conferences (23%). Indications of other knowledge sharing methods do not exceed 10% (see Figure 5).

The most popular solution facilitating knowledge transfer is training (58% of selections), followed by bases of information and knowledge (16%), and e-mail (11%). Other solutions did not receive more than 10% of responses, they include common problem solving, direct contact of employees with an authority in the field, contact, thematic publications and the Internet.

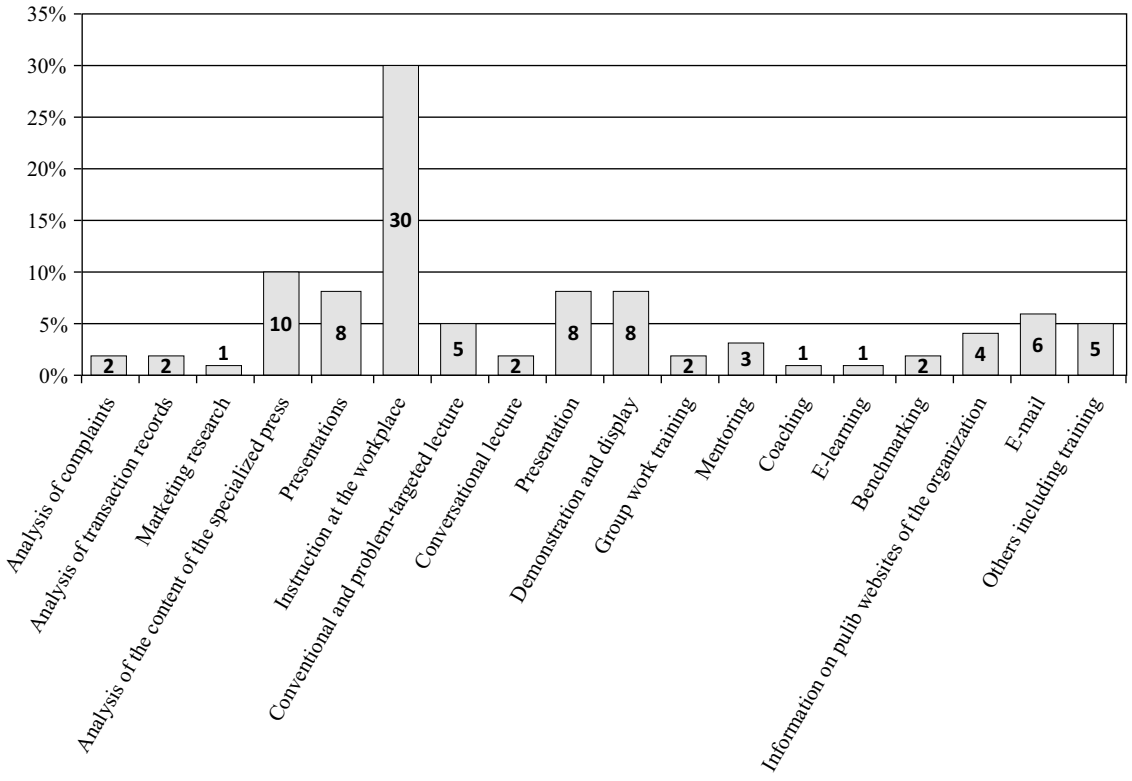

Figure 3. Methods/techniques of knowledge acquisition in the examined municipal company

Source: prepared by the authors.

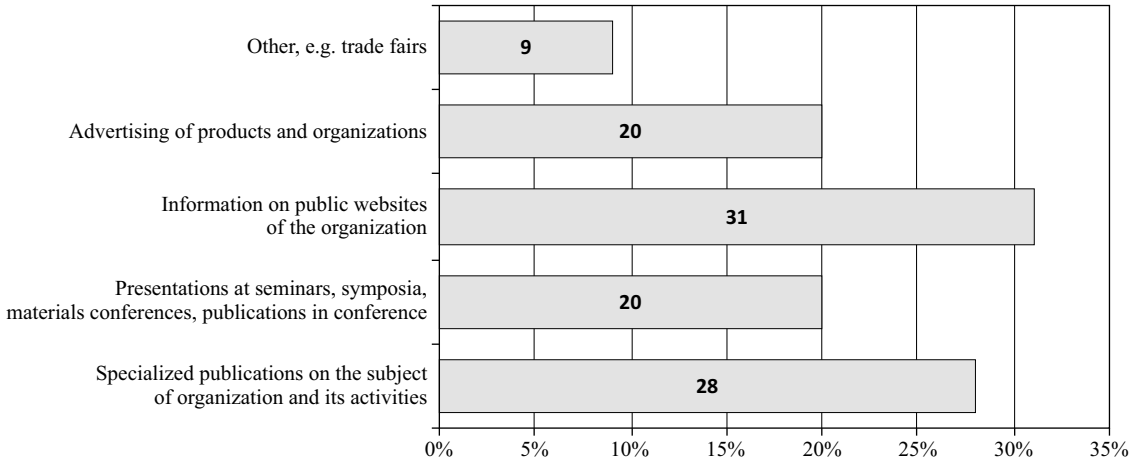

Figure 4. Methods of knowledge dissemination used in The Municipal Water and Sewage Company – Cracow Waterworks

Source: prepared by the authors.

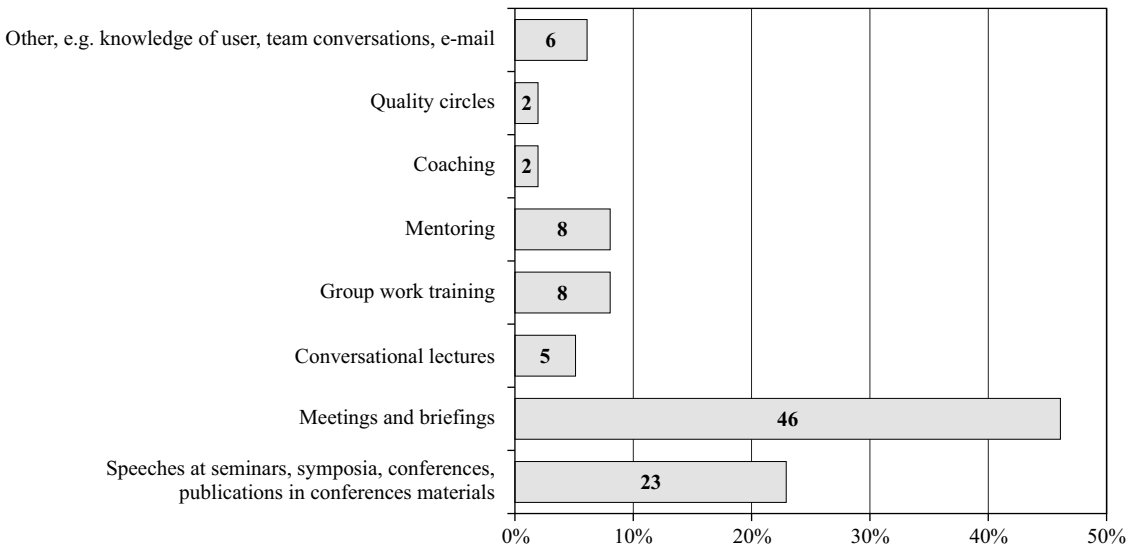

Figure 5. Knowledge sharing methods identified in the examined municipal company

Source: prepared by the authors.

Conclusions from conducted empirical studies: restrictions, practical guidelines, challenges

The general conclusion from answers received describing the special nature of the examined organisation is that the management supports team working or gives freedom in this respect and encourages the sharing of knowledge. The most highly evaluated factors (i.e. good relationships with managers; good atmosphere at work; friendly relations; and sharing possessed information and

knowledge by employees offering assistance) are a good foundation on which to build an organisation based on knowledge, especially tacit knowledge, that is developed in its sharing sub-process, which is particularly important owing to the retirement of employees and the requirement for the management to focus on acquiring this knowledge and keeping it within the organisation.

With respect to conditions for the implementation of knowledge transfer in the examined organisation it may be concluded that circumstances are favourable. One takes actions aiming at shaping organisational culture based on mutual trust, focused on promotion and support of transfers, including knowledge sharing. It seems that the management, in its daily organisational behaviour and actual attitudes, meets standards and values focused on team forms of work organisation, the creation of a supportive atmosphere, respect for the rule of reciprocity, promoting altruistic attitude in sharing knowledge, and building positive the reputation of a given employee. Indisputably, these phenomena are catalysed by a sense of safety of employment and average job seniority.

The answers suggest a limited focus on acquisition of knowledge, including tacit knowledge, and a small determination in searching for it, especially beyond the organisation. They present the company as hermetic, strongly embedded in the specific nature of its own operations, limited solely to the organisation's interior, which is contradictory to the idea of knowledge democratisation and close co-operation with local communities. It is worth considering whether intensification of application of specified methods could be justified in some areas of knowledge acquisition. For instance, analysis of complaints may constitute an important source of information about errors and may help to eliminate them, thereby increasing effectiveness, obtaining instructions concerning the preferences of customers and tightening co-operation with the local community. Another example is seeking benchmarks or sharing experiences with others.

It was noticed that in the studied municipal company knowledge is shared only through direct interactions, which seems to be understandable, due to a greater resource knowledge which may be provided, but is confusing as well. Nonetheless, the respondents clearly confirmed the intensive implementation of this knowledge transfer sub-process, emphasising the frequent use of different methods. On the other hand, the sharing of knowledge, especially tacit knowledge, using technological support is less than satisfactory.

During in-depth interviews respondents confirmed that there is an explicit difficulty regarding access to knowledge concerning, for example, interpretation of dynamically changing legal acts and their executive detailed regulations. Most often such knowledge is shared through individual and direct contacts, often in the form of tacit knowledge.

The dominant medium used for knowledge dissemination is the Internet. The places below that are occupied by specialist publications, advertisements of products and speeches during seminars, symposiums or conferences. Trade fairs, mutual contacts, discussions, corporate journal are answers classified into the category of "other instruments".

In the case of knowledge sharing the results received suggest a need for taking new decisive actions to support the implementation of the examined sub-process, especially as conditions are favourable and determination to acquire the tacit knowledge of retiring employees is high, which is proven by a practice used in the organisation consisting of the establishing of what is called a "shadow cabinet". A few months before an employee leaves another employee is appointed who is supposed to take his/her place and prepares to do so by observing and participation in his/her work. An additional method used in order to maintain the biggest resource of knowledge possessed by retiring employees is their part-time employment for the purpose of helping their successors become familiar with new responsibilities.

What is characteristic is that, in accordance with the theory of knowledge sharing, it is a process embedded in direct, often informal, contacts, essentially focused on tacit knowledge. It may

be concluded that the individual level deserves additional development: the greater the planned scope of tacit knowledge sharing the more extensive it should be. Therefore efforts should be focused on building trust and altruistic attitudes, setting actions in a properly designed motivational system.

More efforts are required to expand the organisational level of knowledge sharing; here support can be sought via technical solutions, of course preserving the context of motivational system and the organisational culture. It was noticed that knowledge sharing is often not formalised. This may result in valuable and more stimulating sharing of tacit knowledge. On the other hand, a need is clearly emerging for greater use of IT support for knowledge sharing. In addition, the organisation, in order to support knowledge transfer among employees, may use in its organisational conditions methods and techniques supporting knowledge transfer indicated and preferred by participants of the study.

With respect to the results of the conducted studies and suggested directions for improvement, it should be emphasised that one of the fundamental goals of knowledge management in the studied units should be development of a knowledge sharing system. Managers should be aware that in order to effectively share knowledge at the organisational level the effects which are to be achieved should be determined, which will be a starting point for the selection of desired strategies of knowledge management and appropriate attitudes and behaviours with respect to knowledge sharing. One should successively, depending on preferred actions, create conditions stimulating units to share knowledge.

A reliable social and technical infrastructure of the knowledge environment should also be built. Additionally, technological conditions stimulating knowledge sharing should be secondary to social conditions (see Prahalad & Ramaswamy, 2005, pp. 185–186).

Another important challenge should be to construct a system of transfer that takes into account its inter-organisational dimension. One should also stimulate the acquisition, sharing and disseminations of knowledge between companies forming Krakowski Holding Komunalny, because the linkages between them suggest features of structures and dependencies typical of a network.

The companies should therefore endeavour to create and provide to employees an operating environment that stimulates knowledge diffusion. It is recommended to shape an appropriate organisational culture and create a proper context for the implementation of this process with the participation of knowledge. It is desirable that the existing organisational culture should evolve towards a culture promoting knowledge including, inter alia, continuous training and education of employees, informal ways of communication, evenly shared responsibility, expert power, and multi-functional teams (see Latusek, 2008, p. 180; Intezari *et al.*, 2017, p. 504) using relevant means of exerting pressure on appropriate elements of the knowledge culture (see Glińska-Neweś, 2007, p. 256).

To sum up, when indicating directions for improvement of the knowledge transfer process in municipal organisations, one should develop a complex system for knowledge transfer as a subsystem of the knowledge management system, taking into account both the social and technological dimensions of such process that:

– allows for an analysis and diagnosis of the implementation scope of the knowledge transfer process, including examination of the degree of openness to sharing knowledge at the level of unit, group, organisation and sector;
– intensifies acquisition of knowledge, especially from outside the organisation;
– allows for tightening of co-operation with external stakeholders of an enterprise (especially wider society) and other companies forming the holding;
– allows for displaying environmentally and socially friendly operations, and shaping of the positive image of organisations as non-profit institutions;
– identifies barriers to sharing knowledge and balances them;

– shapes optimal conditions of the knowledge sharing sub-process;
– includes creation of an atmosphere fostering transfer of knowledge, especially sharing it, and, as a target, shaping of the knowledge culture.

Then it can constitute a model solution for most municipal organisations, taking into account the main values as well as general and detailed principles referring to knowledge transfer in municipal companies (tab. 2).

The analysed results should be treated only demonstratively, as they take into account clear limitations due to the size of the research sample and levels of management represented by most respondents, as well as due to objectivity (in several questions managers assessed themselves). Studies should be perceived only as pilot considerations and can qualify for conducting proper, multi-dimensional scientific explorations concerning, for example:

– directions of the course of particular sub-processes of knowledge transfer, with identification of which subprocesses are based on internal knowledge and which on that coming from outside the organisation;

Table 2. Proposed main values, overriding and detailed principles for knowledge transfer in municipal organisations

OVERRIDING/GENERAL PRINCIPLES	Core VALUES
• knowledge as a dominant resource	knowledge
• permanent learning at the level of individual, team, organisation and network	trust
• shaping of full confidence	initiative
• creation of an organisational culture focused on knowledge	innovations
• necessary diversity	
• preferred redundancy, especially redundancy of intangible resources	
• pursuit of negative entropy	
• clear vision of a knowledge strategy	
• system thinking[1]	
• natural selection of leaders	
• knowledge sharing	
• seeking and releasing of constructive criticism	
Detailed principles concerning knowledge transfer	
• pursuit of an open system[2]	
• preferred equifinality	
• knowledge sharing as a feature of a committed employee	
• development of common thinking models	
• openness	
• targeted knowledge protection[3]	
• communication and mutual interactions	
• high level of positive personal commitment	
• leaving space for events, activities and behaviours spontaneous and informal	
• intensification of direct contacts	
• restriction of the degree of formalisation	

Source: prepared by the authors.

[1] See: P. Senge, 2000, pp. 20-25.

[2] Open system, homeostasis, negative entropy, necessary diversity and equifinality are principles of analysis of organisations understood as systems proposed by G. Morgan, 1999, pp. 48-49.

[3] It is recognised that despite the policy of full openness, some resources of knowledge, in particular those strategically valuable, should be protected.

– roles, functions and tasks of the co-ordinator of knowledge transfer as a knowledge broker;
– indication of dimensions of the organisational knowledge culture typical of municipal companies;
– analyses of knowledge transfer in the context of exerting pressure of all stakeholders of municipal companies;
– functioning in network structures in the form of existing municipal holdings;
– preparation of a set of operating guidelines according to good practices of management of municipal organisations.

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Determinants of choice in the form of conducting municipal economy by local government units

Abstract

Objectives: This paper aims to address a problem that includes the managing of the municipal economy by local government units (LGUs). The research issue raised regarded, in particular, the rules and organisational-legal norms for managing a municipal economy. Its expression is the posed hypothesis according to which what matters significantly for LGUs in the choice of form for conducting a municipal economy is both the character of the task as well as whether this form is recognised as a subject of the public finances sector, and, what follows, whether its indebtedness is subject to statutory restrictions and influences the financial situation of LGUs.

Research Design & Methods: To verify a hypothesis formulated in such a way, firstly theoretical and legal aspects of managing a municipal economy by LGUs have been put forward. Next a comparative analysis for forms of managing a municipal economy by LGUs was conducted, i.e. a local self-government budgetary establishment and a municipal company, and the most significant characteristics of the discussed forms, as well as their effects being a result of their choice by LGUs, were indicated. Comparative and descriptive analysis has been used in this paper; it included analysis of financial data regarding the management of a municipal economy by LGUs, but in strict correlation with institutional and legal conditions for the realisation of public tasks and their conditioning.

Findings: As a result of the research conducted, it has been concluded that changes taking place in the scope of forms of managing a municipal economy point towards more and more common tasks realised by LGUs both in the field of public utility as well as outside of the public utility zone in the form of commercial law companies.

Contribution: Basic kinds of risks associated with the realisation of tasks by the budgetary establishment and municipal company have also been defined. Moreover, research results show that possibilities for such a wide operation result first and foremost from imprecise legal regulations, which are at the same time the only source of risk associated with the operation of such companies.

Keywords: municipal economy, economic activity of LGUs, local self-government budgetary establishments, municipal company, risk.

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Introduction

The basic goal in the functioning of local government units (LGUs) is the performance of public tasks directed at meeting the needs of the local community. Bodies constituting local government units have the right to choose the organisational and legal form of these tasks, but at the same time are responsible for the performance of public tasks carried out in private forms.

The legislator does not formulate restrictions as to the category of organisational units, but only defines the scope of conducting business activity by LGUs and organisational units. Local government units may create, for the purpose of carrying out tasks, both units with no legal personality as well as units with legal personality. The first of those involves organisational units such as a budget entity and a local self-government budgetary establishment. The legal bases for their functioning have been defined in the Act of 27 August 2009 on public finances (the Public Finances Act). The second group of organisational units are entities with legal personality, a category which includes joint-stock companies, limited liability companies that can be created by local government units on the basis of the provisions of the Act of 20 December 1996 on municipal management (the Municipal Management Act), as well as foundations, public independent healthcare institutions, local government cultural institutions and other local government legal entities. Organisational and legal forms can be distinguished among units included in the aforementioned groups, in which local government units can conduct municipal management – these are local self-government budgetary establishments and commercial law companies. Moreover, LGUs may also entrust tasks from the field of municipal economy to be performed by natural persons, legal persons and entities without legal status, and perform these tasks in the form of municipal relationships and agreements.

Bearing in mind the above premises, the authors have undertaken a research problem formulated in the form of the following questions:

What are the essence and reasons for the creation of individual organisational units by local government units?

What are the legal regulations and rules of managing a municipal economy by LGUs?

What factors determine the choice of the form of management in a municipal economy by local government units?

What are the consequences of choosing individual forms of task implementation?

Based on a problem formulated on this basis, a scientific hypothesis has been made according to which what is important for the choice by LGUs of the form of managing a municipal economy is both the character of the task as well as the fact of whether it is an entity of the public finances sector, and, what follows, if its indebtedness is subject to statutory restrictions and influences the LGU's financial situation. Derivatives of the research problems and research hypotheses are the main objectives of this study, which include: analysis of the legal basis for the creation and functioning of organisational units, with particular emphasis on legal regulations included in the Municipal Management Act; and analysis of the premises and consequences of the selection of individual forms of performance of tasks within the municipal economy.

The structure of this study reflects the adopted research objectives. Firstly, organisational and legal forms for managing a municipal economy have been characterised considering the issue of managing business activity by an LGU in a public utility area. Furthermore, changes in the scope of managing a municipal economy by an LGU in the form of a local self-government budgetary establishment and commercial law companies have been analysed, inter alia based on a revenue and expenses analysis in budget divisions in the years 2010–2016, and the most significant characteristics

of the discussed forms have also been shown. The last part of this article, on the basis of previous considerations, includes an analysis of factors determining the choice of form of managing a municipal economy and results of that choice of form for the realisation of tasks. This study ends with a summary setting out the most important conclusions from the research.

Organisational and legal forms of municipal economy management by local government units

The source literature includes many views on the form of performing public tasks by municipal authorities. This results from, inter alia, the shape of legal regulations in this field. Statutory acts indicate that LGUs, in order to perform their tasks, may create organisational units; however, the acts do not specify which units this specifically regards. Such terminological heterogeneity causes many problems in practice. The answer came to a certain extent in a judgment of the Supreme Administrative Court in 2009 (II OSK 664/09, LEX No. 552881), in the light of which the concept of an organisational unit means an entity with a specific organisational structure. An organisational unit is such an entity that was created by a local government unit, in which the local government unit has shares, or which uses the government's financial means. Therefore the concept of an organisational unit includes both organisational units (municipal, county and provincial) as well as local government legal entities. The concept of a local government legal person should be understood as a municipal, county or provincial organisational unit with the legal status of an entity. It is an entity separated organisation-wise, having separate property and personal components, performing tasks specified in relevant legal regulations.

In the case of organisational units without legal personality (budget entities, local self-government budgetary establishments) there is consensus among authors as to the essence and principles of the functioning thereof. Most authors emphasise the fundamental differences between a budget entity and a budgetary establishment. S. Owsiak (2017, p. 603) defines a budget entity as an entity typical for the economy by means of public funds the essential feature of which is that it covers its expenses directly from the state budget (an LGU budget), and income is transferred directly to the account of the appropriate budget (i.e. it settles payments with the budget using the gross budgeting method). This view predominates in the source literature (Dolata, 2016, p. 115; Wróblewska, 2014, p. 178). Similarly, in the case of local government budget divisions there is homogeneity of views of different authors. It may be concluded that a common element of all definitions is a result of the disposition of Art. 14 of the Public Finances Act pursuant to which local self-government budgetary establishments are created in such fields of public life where it is possible to introduce an entire or partial payment for services, and therefore a budget division, in contrast to an authority may cover the costs of functioning (expenses) from obtained income. In addition to the forms discussed, local government units can create what are known as local government organisational units with legal personality (Dolata, 2016, p. 130). They are referred to as municipal, county and provincial public utilities, and mainly carry out tasks in the field of culture (e.g. orchestras, museums, community centres, etc) and in the field of health care (independent public health care facilities).

However, most controversy in the source literature is related to the issue of communal management of LGUs. Markets for communal services differ from commercial markets. The basic difference stems from the fact that they are usually operated by one entity providing a given service, which means that it operates in the conditions of a monopoly market. It seems, however, that given the technology for producing and delivering goods and services, the local reach and structure of the market and the fact that one entity is able to meet the needs that occur therein by generating lower costs than a few competing suppliers, this market has characteristics of a natural monopoly

(Grzymała, 2010; Mosca, 2008). However, opinions are divided with regard to causes and the mechanism of creation in the sphere of the communal economy of structures corresponding to the natural monopoly model, (DiLorenzo, 1996 (as cited in Satoła, 2017, p. 33)).

The provisions of the on Municipal Management Act are crucial from the point of view of an LGU's municipal economy. As per the cited act, a municipal economy is based upon the LGU performing its own tasks, in order to meet the collective needs of a self-governing authority, and may be managed in particular in the forms of a local self-government budgetary establishment or a commercial law company. There is a stance in the doctrine according to which the concept of municipal economy covers every sphere of self-government activity in the area of *minium* and *empire* (Kulesza, 2012, pp. 7–8, 10–11). However, one may encounter other approaches that give municipal economy a narrower meaning, as an activity of LGUs that is not a ruling activity the purpose and effect of which is the material implementation of public tasks, and thus the production of goods, the provision of services, or the obtaining of financial resources for that purpose (Skoczny, 1991, p. 3).

The first of these views connects the concept of municipal economy with the entire sphere of the self-government's activity, and does not leave any activities that are only of organisational character or special protection of communal property. It seems, however, that the statutory understanding of municipal economy explicitly points not towards every LGU activity, but instead to the provision of public services. The content of the Municipal Management Act directly regulates, on the one hand, the subjective aspect of its management (including transformation of the subjective forms of running this economy), and, on the other hand, the subject of this act was designated by Art. 4 of the Municipal Management Act, covering the provision of municipal services (and the rules for the payment for them) (Bandarzewski, 2016, p. 42). The second significant doubt concerns the scope of local government tasks covered by municipal management. It is clear from Art. 1, sec. 1 of the Municipal Management Act that the municipal economy includes only own tasks. Although the concept of own tasks directly concerns only municipalities, as in relation to counties and self-government provinces the legislator refers to such tasks as "tasks of supra-municipal nature" and "tasks of provincial nature". There is no doubt that municipal economy also covers municipal tasks of supra-municipal character and, respectively, tasks of a province self-government of provincial character (these are own tasks of these tiers of local government) and does not include commissioned tasks (tasks from the field of government administration). The tasks of municipal economy can be divided into:

a) tasks of public utility character, covering own tasks of LGUs;
b) tasks exceeding the scope of public utilities, which, according to the definition of the municipal economy concept, should also include only own tasks of LGUs.

In addition, the legislator, when describing performance of tasks in the field of public utilities, also refers explicitly to the concept of economic activity. Hence another question arises: can local government manage its own business activity as part of both above-mentioned categories of tasks? The concept of economic activity is defined in the Act of 2 July 2004 on freedom of economic activity (the Act on Freedom of Economic Activity). According to Art. 2 of the above-mentioned act, business activity should be understood as profitable production, construction, trade and service activities, as well as exploration for and identification and extraction of minerals from deposits, and professional activities, performed in an organised and continuous manner. The key element of the definition of business activity is profit, so therefore directing activity at gaining income (profit, revenue). However, the concept of profit does not appear in the definition of municipal economy, and the criteria for performing tasks in the field of public utilities indirectly eliminate this criterion.

In neither doctrine nor judicial decisions is there uniformity of views as to the permissibility of conducting business activity by LGUs, and with the permitting of conducting business, as to the characteristics of such activity. K. Kohutek (2005, LEX/el.) indicates that the performance of tasks in the sphere of public utilities cannot be treated as running a business, while conducting activities outside that sphere should be treated as economic activity.

The aim of the performance of tasks of a public utility nature is ongoing and uninterrupted satisfaction of the collective needs of the population through the provision of publicly available services. These tasks should include, in particular, municipal services and, in accordance with Art. 2 and Art. 9, par. 1 of the Municipal Management Act, they may be performed by local self-government budgetary establishments, commercial law companies (limited liability companies) and joint-stock companies (JSC). The legal basis of activity for the first of the aforementioned forms are the provisions of the Public Finance Act, which in Art. 14 sets out a detailed catalogue of LGU tasks that can be performed in this organisational and legal form. The cited article mentioned LGU's own tasks, inter alia in the scope of: housing management and business premises management; local road infrastructure and traffic organisation; supply of water, electricity, heat and gas; ensuring sanitation; maintaining cleanliness, order and sanitary facilities; local public transport; marketplaces and market halls; communal greenery and trees; physical culture and sport; social assistance, professional and social reintegration, as well as vocational and social rehabilitation of disabled people; maintaining various species of exotic and domestic animals; and maintaining cemeteries. Analogically, the activity of commercial law companies in the sphere of public utilities may concern the same areas.

The detailed list of tasks presented by the legislator is a closed catalogue. Unauthorised activity would include the creation of a local government budget division in order to run a school or kindergarten. What is more, as a rule, local self-government budgetary establishments must be created solely for tasks for which it is possible to self-finance business operation. A local self-government budget division, performing chargeable tasks, covers its operating costs with its own revenues. It results from the content of court judgments that budgetary establishments are not business entities within the meaning of Art. 4 par. 1 of the Act on Freedom of Economic Activity, because this unit is distinguished as a form of budgetary law, and not a form of conducting business activity (Sołtyk, 2017, p. 79).

The Public Finance Act also allows for the possibility of transferring subsidies for budgetary establishments from the LGU budget. These may be subject-related subsidies as well as subject- and purpose-based subsidies. In the latter case it is possible to transfer both target subsidies for current tasks financed with EU funds and other funds from non-returnable foreign sources, as well as targeted subsidies for financing or co-financing investment implementation costs. The last type of subsidy for local self-government budgetary establishments is a one-time subsidy for the first equipment in working capital, which can be granted only to a newly created plant.

It must be explicitly emphasised that subsidies for a budgetary establishment are legally limited. There is a restriction according to which subsidies cannot exceed 50% of a given plant's operating costs. Only the above-mentioned two types of targeted subsidies are exempted. This means that the fees charged for services provided must account for at least 50% of the given plant's total revenues.

Another important element from the point of view of budgetary establishments' principles of operation is the method of accounting for budgetary establishments with the LGU budget. Pursuant to the Public Finance Act a plant's settlements with the budget are made via the net budgeting method. This means that the surplus of the company's financial resources is paid into the budget, and any shortage of financial resources is covered by means of a money transfer from the LGU's budget in the form of subsidies. The

detailed manner of establishing a surplus in working capital in a local self-government budgetary establishment is defined by the Regulation of the Minister of Finance of 7 December 2010 on the manner of conducting financial management of budget entities and local self-government budgetary establishments (the 2010 Regulation of the Minister of Finance).

Although within the current legal status the catalogue of tasks which can be performed by local self-government budgetary establishments is extensive, in recent years there has been a visible reduction in the scope of tasks performed by LGUs using this form. Particularly significant changes took place in 2010 with the entry into force of the currently binding Public Finances Act. By 31 December 2010, in accordance with the provisions of that Act and the provisions introducing this law, municipalities were required to liquidate or transform those budgetary establishments the activities of which went beyond the scope defined in Art. 14 of the Public Finance Act. The financial results related to mandatory changes in the scope of operation of budgetary establishments are presented in Table 1.

Financial data for local self-government budgetary establishments shows that as a result of changes to the Public Finance Act plant revenues and costs in 2011 decreased by more than 36% compared to 2010. The highest revenues and costs were related to the activity of municipal budgetary establishments and plants operating in cities with poviat rights: in 2010 they accounted for 46% and 50% of the revenues of all local self-government budgetary establishments (the situation was similar in 2011). These changes were, inter alia, a result of the transformation in 2010 of 90 budgetary establishments into limited liability companies (sp. z o.o.) and 16 budgetary establishments into budget entities. In addition, 25 new budgetary establishments were created and 4 were closed. Irrespective of that, 159 new limited liability companies and up to 30 new joint-stock companies were created or launched.

In 2010 the number of capital companies in the municipal economy exceeded the total number of budget units and budgetary establishments. At the end of 2010 LGUs held 2,431 companies (2,058 limited liability companies and 373 joint-stock companies), 782 local self-government budgetary establishments and 1,305 budget entities (Ministry of Treasury, 2011). In subsequent years the scale of changes in organisational and legal forms was smaller. For example, in 2013 33 budgetary establishments were transformed into limited liability companies, in the following year seven, and in 2015 nine. At the end of 2015 LGUs held 2,597 companies, including holding shares in 2,324 limited liability companies and in 273 joint-stock companies. This means that in the years 2010–2015 the number of municipal companies increased by nearly 7%. The number of budgetary establishments in 2015 was 779, remaining at a level close to that in 2010 (Ministry of Treasury, 2016). However, revenues of local self-government budgetary establishments in 2010–2016 decreased by nearly 50% (with the largest falls in municipalities and cities with poviat rights, down by 33% and 60% respectively). The largest scale of changes, as noted earlier, concerned the years 2010 and 2011.

Thus it is possible to point out two fundamental reasons for the transformation of budgetary establishments and the growing number of commercial law companies. One worth mentioning are changes in legal regulations that even required LGUs to limit the scope of the performance of tasks by budgetary establishments. The second reason was related to the benefits associated with the creation of commercial law companies by LGUs (including freedom of their creation and the financial consequences for local governments). They are equal in relation to private entities, participants in economic life, and their organisational structure favours a more effective and rational use of municipal property. Given the typically commercial nature of capital companies, profit dividends are a potential source of LGU revenues. These types of companies give LGUs much broader options for operations. It should be emphasised here

Table 1. Revenues and costs of local self-government budgetary establishments in 2010–2016 (in PLN thousand)

Specification	2010	2011	2012	2013	2014	2015	2016
IN TOTAL							
Revenue	8 750 765	5 582 645	5 355 589	4 962 610	4 709 468	4 696 733	4 588 813
including subsidies from the budget	2 135 530	772 442	601 108	538 781	532 370	549 734	538 718
Costs	8 774 132	5 963 797	5 406 006	4 962 650	4 648 580	4 643 282	4 519 004
Corporate tax		28 457	26 776	26 334	24 893	25 442	26 215
Deposits to the budget	41 546	22 106	23 712	27 424	23 450	24 003	33 048
MUNICIPALITIES							
Revenue	4 051 743	2 871 694	3 017 283	2 818 714	2 734 822	2 764 905	2 713 078
including subsidies from the budget	774 627	349 570	319 109	302 969	293,314	307 128	300 676
Costs	4 046 801	3 128 628	3 062 955	2 838 283	2 696 399	2 745 736	2 677 844
Corporate tax		14 628	13 627	13 854	13 640	13 876	14 731
Deposits to the budget	20 361	14 614	10 968	15 853	14 114	16 962	20 390
COUNTIES							
Revenue	152 671	28 438	27 329	32 656	42 553	53 225	56 590
including subsidies from the budget	100 566	7 009	6 947	8 438	11 245	10 938	12 495
Costs	151 493	27 764	28 165	33 799	42 302	49 927	56 186
Corporate tax		39	6	26	43	19	62
Deposits to the budget	1 405	0	0	0	80	6	341
CITIES WITH POVIAT RIGHTS							
Revenue	4 409 476	2 651 502	2 282 921	2 042 589	1 873 832	1 820 627	1 758 982
including subsidies from the budget	1 225 878	412 258	271 808	223 660	224 321	229 248	222 350
Costs	4 432 648	2 775 523	2 285 287	2 025 896	1 852 979	1 791 041	1 727 043
Corporate tax		13 723	13 115	11 691	10 741	11 059	10 956
Deposits to the budget	19 257	7 472	12 375	7 828	7 821	6 427	11 222

Table 1 – continued

Specification	2010	2011	2012	2013	2014	2015	2016
				PROVINCES			
Revenue	136 875	31 011	28 056	29 456	30 081	30 084	29 830
including subsidies from the budget	34 460	3 605	3 244	3 465	3 231	2 336	2 384
Costs	143 191	31 882	29 598	29 041	30 131	29 782	29 033
Corporate tax		67	27	2	1	219	239
Deposits to the budget	523	20	369	513	114	0	79

Source: own study based on reports about the implementation of budgets of local government units for the years 2010–2016, Ministry of Finance 2017.

that although the obligatory goal of the municipal economy is to meet the collective needs of the self-government's community in the scope of the own tasks thereof, it is not limited to the sphere of public utility tasks, which increases the possibilities of establishing commercial law companies. The Municipal Management Act in the case of tasks outside this sphere limits only the forms of performance thereof and stipulates that the tasks of local government units which go beyond the scope of public utilities can only be performed using the form of commercial law companies (both personal and capital). In addition, the activity of LGUs outside of the public sphere is allowed only in the case of municipalities (including cities with poviat rights) and self-government municipalities. The legal basis and principles of establishing companies or joining companies by LGUs are presented in Table 2.

Although running the operations of LGUs outside of the public utility domain is not a rule, the catalogue of cases in which especially a municipality can undertake such activity is relatively wide. This is due to, in particular, the provision that allows municipalities to participate in companies "important for the development of the municipality" (Art. 10 sec. 3 of the Municipal Management Act). W. Gonet (2010, p. 83) notes that it is much easier for a municipality to show that establishing or joining a company is important to its development than it results from the unmet needs of the community and existing unemployment.

Table 2. Legal basis and principles of creating and joining companies by LGUs outside of the public utility domain

Municipality (incl. city with poviat rights)	**Province**
Legal basis	
Article 9 of the Act of 8 March 1990 on the municipal government (the Act on Municipal Government): a municipality and other municipal legal person may conduct business activity beyond tasks of a public utility nature in the form of commercial law companies.	Article 13, par. 2 of the Act of 5 June 1998 on voivodeship self-government (the Act on Voivodship Self-government): outside of the public utility area a voivodship may establish limited liability companies and joint-stock companies and join them.
Rules for creating and joining companies	
Art. 10 of the Act on Municipal Management	Article 13, par. 2 of the Act on Voivodship Self-government
1) If the following conditions are met cumulatively: a) there exist unmet needs of the local government's community on the local market; b) unemployment in the municipality has a negative impact on the standard of living of the local self-government's community, and the application of other measures and legal measures did not lead to economic activation, and in particular a significant revival of the local market or permanent reduction of unemployment.	– if the operations of companies consist in the performance of promotional, educational, publishing activities as well as telecommunications activities serving development of the province
2) If disposal of an element of municipal property that may constitute a non-cash contribution of the municipality to the company, or its disposal in another manner, will cause a material loss to the municipality.	
3) When the municipality owns shares or stocks of companies engaged in banking activities, insurance and consulting, promotional, educational and publishing activities for the benefit of the local government, as well as other companies important for the development of the municipality.	

Source: own study based on: the Act of 8 March 1990 on local governments; the Act of 5 June 1998 on voivodeship self-government; and the Act of 20 December 1996 on municipal management.

Therefore, since the municipality can always take up activities outside the public sphere, if it considers that that is important for its development, the relatively restrictive Art. 10, para. 1 loses its importance in practice.

Controversy surrounding the functioning of municipal companies outside of the public utility domain is due to, inter alia, the fact that the rules governing their creation by LGUs and activities result from many different legal acts, including from the provisions of the Act on Municipal Self-government, the act on Voivodeship Self-government, the Municipal Management Act and the Act of 15 September 2000 on the Commercial Companies Code (the Commercial Companies Code). This diversity and multiplicity of legal acts has results in three areas. In addition to the aforementioned problems in the functioning of companies (both in the organisational financial sphere and with regard to corporate governance), another effect of the dispersion of legal regulations is significant differences in relation to rules for managing the municipal economy by an LGU in the form of a local self-government budgetary establishment. As a result of those differences completely different areas make these forms attractive from the LGU's perspective. The most important features of local self-government budgetary establishments and municipal companies are presented in Table 3.

Table 3. Characteristics of budgetary establishments and municipal companies

Budgetary establishments	Municipal companies
Legal personality	
No	Yes
Areas of potential operation	
As entities of the public finance sector they may perform: – tasks in the field of public utility; – LGU's own tasks specified in the Act.	As entities outside the public sector they may perform: – tasks in the field of public utility; – tasks outside the sphere of public utility.
Access to public funds	
Relatively easy	Relatively easy
Sources of funding	
– income from fees for services rendered; – subsidies from the LGU budget (simplicity of subsidising); – no ability to use returnable sources of financing.	– income from fees for services rendered; – no possibility to transfer subsidies from the LGU budget; – increasing the share capital; – capital subsidies for current expenses; – supplementary payments to cover operating losses; – retained earnings; – creditworthiness, enabling the taking of loans for investment purposes and the raising of funds from EU sources.
Principles for spending	
– administrative expenses; – legal regime for violation of public finance discipline; – covering operating costs with own revenues.	– quasi-market conditions of operation – the company operates on market principles, being a monopolist in the scope of services provided; – discipline of public finances limited only within the framework of disposing of public funds; – covering operating costs with own revenues.
Connection with the LGU budget	
– financial result (net budgeting method).	– not calculating the company's debt with regard to the LGU debt limit.

Table 3 – continued

Budgetary establishments	Municipal companies
Accounting principles	
– cash approach; – limited depreciation, reducing (apparently) the prices of services provided.	– result from the Act of 29 September 1994 on Accounting (OJ of 2016, item 1047, as amended), accrual basis; – calculating full depreciation on assets owned, which gives the opportunity to finance the development of a company from own depreciation fund; – ability to capture all costs of a given activity and include them in prices for municipal services, which results from full financial reporting.
Principles of financial management	
– the financial plan of the self-government budgetary establishment is the basis for conducting financial management; – the principles of financial management result from the current budget classification; – implementation of the plan is part of the LGU budget report (Rb-30S – report on the implementation of financial plans of local self-government budgetary establishments) – Regulation of the Minister of Finance of 16 January 2014 on budget reporting (as amended, Journal of Laws of 2016); – the Rb-30S report is the basis for making management decisions with regard to the LGU budget.	– the basis for conducting financial management is the material and financial plan, approved by the relevant local government body; – diversified legal regulations shaping the principles of financial management (including the Accounting Act, the Commercial Companies Code, the Act of 4 March 1994 on social benefits fund (the Social Benefits Funds Act), the Act dated 29 January 2004, the public procurement law (as amended, Journal of Laws of 2017, item 1579).
Rules for receiving orders from LGUs	
– receiving orders without tender procedures or procedures resulting from the Public Procurement Act.	– entrusting tasks to be carried out without a procedure resulting from the provisions of the Public Procurement Act (what are known as in-house orders); control over the performance of entrusted tasks resulting from the LGU's complete control over the company.
Principles of management	
– ease of management by the LGU.	– obligatory establishment of the company's bodies; option of making the remuneration of the management board and supervisory board dependent on the results achieved; distributed supervision exercised by the authority constituting the LGU, the executive body and the supervisory board.

Source*:* own study.

The third effect of differentiation of legal regulations in the area of municipal companies is their certain specification, which includes, inter alia, the following elements: the executive body performs the function of gathering partners (in the company with the municipality's 100% share); a supervisory board is mandatory; the supervisory board is appointed and dismissed by the company's management board; councillors cannot be members of the supervisory board; the mayor may be a member of the supervisory board; no internal committee of the council can directly control a company in which the municipality participates (the audit committee may control the company's activities involving the municipality only indirectly, by controlling the mayor's supervision of the company).

Premises and consequences of the choice of organisational and legal form of municipal management of LGUs

When searching for forms and methods of effective management of a municipal economy, LGU authorities must address a few fundamental matters, in particular:

- whether tasks should be performed in exchange for paymen;t
- what the charge for performing a task should be;
- whether the entity performing tasks should be included in the public finance sector or it should operate outside that sector;
- whether the entity that is to carry out tasks will operate on the basis of a market/quasi-market mechanism or decisions on its spending will be taken in an administrative manner;
- what the degree of independence (legal, organisational and financial) of an entity that performs public tasks will be.

In the context of the dilemmas mentioned above, addressing the question of what premises local government authorities should be guided by when choosing organisational and legal form, it should be agreed that, in addition to the nature of tasks, the complexity of financial management should also be considered (including public funds) (Sawicka, 2010, p. 33). Previous considerations indicate that before making a management decision as to the organisational form in which an LGU will perform its tasks in the field of municipal management, i.e. through the local government budget or a municipal company, it is reasonable for the LGU's authorities to draw up an appropriate economic balance. Such an analysis should include, inter alia, a statement in the form of a performance account (in terms of forecasts of revenues and assumed costs, including planned investments). This will make possible the answering of the questions of to what degree is income from a particular business able to cover the expenses of functioning and the creation of which organisational form for performance of a particular public task is reasonable from the economic point of view? An analysis of the choice for the form used for task performance should not, however, be limited to only the economic balance, taking into account the goals of tasks to be performed, including, first and foremost, the ongoing and constant meeting of the collective needs of society on the path of providing the commonly available services. In this context the basis for this choice should be the settlement of such issues as the creation of the conditions for these entities in terms of: determining the amount of payment for services provided by the entity; the forms in which they will be supplied from the budget, including subsidies (particularly subjective); and whether they will use any funding which will need to be repaid to the source thereof.It is for these reasons that attention should be paid to the fact that the choice of organisational and legal form in which the municipal management of LGUs will be conducted entails various types of risks. The full catalogue thereof would significantly go beyond the lean framework of this article, therefore only those of such which are, in our opinion, of fundamental importance are presented below.

As is clear from the table above, tasks entrusted by the legal order in effect to municipal companies are encumbered with numerous types of risks. Some of them also occur in a situation when tasks in the scope of an LGU's public usability are implemented in the form of a budgetary establishment. Here are a few examples:

From an LGU's point of view financial risk related to the liability of LGUs for company debts is particularly important. It is enough to point out that if an enterprise operates in the form of a limited liability company, the municipality is only liable up to the amount of the company's share capital. However, in the case of tax liabilities, the municipality will be liable for the full amount. However, when the municipality is the owner of all shares in a municipal joint-stock company, it is always fully responsible for all the obligations thereof, similar to the tax liability of a limited liability company. Another example of risk that is particularly prevalent in municipal companies is

Table 4. Selected types of risks determining the choice between budgetary establishments and municipal companies

Budgetary establishments	Municipal companies
Risk related to performance of public tasks	
– Relatively small – may occur as a result of limited options for continuity of financing tasks (the budget is an annual plan); – the goal is to satisfy the community's collective needs; – the principle of timely execution of tasks resulting from Art. 17 of the Public Finance Act; – lack of incentives to effectively spend funds, which may affect the quality of services provided.	– larger; – the goal is not only to meet collective needs but also to maximise profits based on the Commercial Companies Code, which in principle determines economic balancing; subordination of implementation of profit maximisation tasks may affect the quality of services provided.
Financial risk and accompanying risks: loss of liquidity, loss of credibility and bankruptcy	
– limited, due to the discipline of public finances; – regime of openness and transparency; – principles of purposeful and cost-effective spending are based on Art. 17 of the Public Finance Act.	– relatively large; – lack of transparency – obscuring the image of LGUs – resulting, on the one hand, in the possibility of 'shifting' the debt of LGUs to companies, and, on the other, in the liability of LGUs for the debts of the company; – greater freedom in running a business that could lead to violation of statutory restrictions; – failure to comply with the principle of economy, e.g. through multiple recapitalisation of the company; – incorrect management of municipal property; – possibility of losing liquidity and credibility, possibility of bankruptcy (e.g. resulting from high costs of maintaining management boards and supervisory boards, as well as external services).
Risk of corruption	
– relatively small, due to the inclusion in Art. 34 of the Public Finance Act of the principle of publishing information regarding tasks or services performed or provided by the undertaking and the amount of public funds for their performance/provision.	– occurs especially in the case of companies operating outside the public sphere; – the position of a monopolist generally promotes corruption and the occurrence of pathological phenomena; – lack of transparency in terms of revenues achieved, by involving public funds in conducting commercial business activities (contact between public and private interests).
Personnel risk	
– limited chances of recruiting highly qualified staff, due to the remuneration system.	– significant chances of recruiting highly qualified staff due to the remuneration system applied; – greater opportunities to give public affairs to efficient managers, although this will depend on the procedure used to employ them; shortcomings in this area may result in the employing of inept and incompetent people who do not have the expertise and experience.

Source*:* own study.

the risk of corruption. That may occur in the case of companies operating outside the public utility sphere and results from the fact that the municipality has a stronger position in legal transactions than private entities, which in turn creates a risk of distorting rules of competition and the risk of corruption related to financing commercial activities from public funds (Chyb, 2015, pp. 8–9).

In addition, a report published by the Supreme Chamber of Control indicates many irregularities

in the functioning of municipal companies. In particular, attention was drawn to the fact that these entities carried out activities that were not permitted under applicable law, not respecting the restrictions for activities outside the public sphere. Irregularities involved, inter alia, companies running hotel and catering businesses, management of commissioned real estate, and even property development and funeral services. It should be emphasised that the percentage of such companies in the large number of audited enterprises was very high and amounted to as much as 29% (the study covered 229 companies) (SCC, 2014, pp. 17–21).

The SCC also draws attention to irregularities occurring in many municipal companies as a result of lack of efficiency of ownership supervision and the lack of proper control by LGUs. The report emphasises such weaknesses as, inter alia: lack of qualification procedures enabling the selection of the best candidate; appointment of the same persons to several supervisory boards; and application of discretionary criteria (SCC 2014, p. 29).

Another area of the functioning of local government companies in which irregularities are indicated is the management of municipal assets. In seven audited offices, the SCC identified irregularities in the management of LGUs' assets for companies in the amount of PLN 96.5 million). This amount constituted 1% of all means transferred by these LGUs to municipal shareholders. The companies improperly managed assets with a total value of PLN 11.3 million. In addition, in 236 companies (out of 244 analysed) no audits were performed in the years 2009–2013 regarding the method of using assets contributed (SCC, 2014, pp. 8, 27).

Summary

The LGU sector in Poland is the most important public services provider and investor. However, due to the legal regulations in effect with regard to the indebting of LGUs, options for performing tasks (especially investment) are decreasing due to restricted funds necessary for the financing thereof. Therefore more and more often LGUs establish companies the aim of which is to perform specific public tasks. Commercial law companies are not included in the public finance sector, so they are not covered by the regime of disclosure and transparency of finances resulting from the Public Finance Act, but they are included in the public sector when municipal or state-owned property dominates that sector. The indebtedness of these companies is not subject to statutory restrictions; however, it can significantly affect (even indirectly) the financial situation of LGUs.

Analysis of the scope and forms of municipal management of LGUs indicates that, when having the opportunity to choose to perform tasks in the field of public utilities in the form of a local self-government budgetary establishment and a municipal company, they more often decide to perform such in the form of commercial law companies. This is evidenced not only by the decrease in revenues and costs of budgetary establishments in 2010–2016 but also by the decreasing number of organisational units operating in this form. LGUs decide to perform in the form of municipal companies not only tasks in the field of public utilities but increasingly also tasks from outside the sphere of public utilities.

The conducted analysis shows, however, that the performance of tasks in the form of a local self-government budgetary establishment brings about a much smaller risk from the LGU's point of view than the functioning of municipal companies, which is accompanied by numerous irregularities. They exert or can have significant effects on the property of municipalities and the conditions of competition on local markets. These irregularities result mainly from ambiguous legal provisions. Regulations concerning the principles of creating, joining or functioning of local government companies are scattered in many legal acts, which does not facilitate proper performance of municipal management in this form. The functioning of local government companies is regulated by, inter alia, provisions of the Commercial Companies Code,

the Municipal Government Act, the Act of 5 June 1998 on poviat self-government, the Voivodship Self-Government Act, Municipal Management Act, Act of 30 August 1996 on commercialisation and certain rights of employees, the Act on Freedom of Economic Activity, the Public Finance Act, and the Act of 21 August 1997 on real estate management. In addition, the act which is key from the point of view of municipal economy management, i.e. the Municipal Management Act, should regulate this matter comprehensively, defining the principles of municipalities creating and joining companies, as well as the rules of their operation. Regulations being included in so many legal acts, and, in many cases, the lack of their precision, causes the occurrence of numerous types of risk, both regarding the implementation of tasks and the risk of corruption, but first of all financial risk.

It should be noted, however, that, on the other hand, the SCC (2014, p. 9) points to the fact that the performance of public tasks by companies with the participation of LGUs has allowed for effective undertaking of many infrastructural investments. However, even in this area the effectiveness of performing public tasks was reduced by irregularities both in the activities of companies and the local authorities supervising them.

It seems, therefore, that for spending of public funds that is effective and consistent with the principles of economy and savings it is necessary to clarify legal regulations for conducting municipal management by LGUs outside the sphere of public utilities. Particularly imprecise are the provisions regarding LGUs creating and joining companies, tasks that can be performed and the effective governance of companies by LGUs. The need to change provisions of law does not raise doubts. Thanks to amendments in law LGUs will change their approach to engaging in the municipal economy in private-law forms, and commercial companies will become an effective form for performance of public tasks, which will also reduce risk associated with their activities.

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Act of 27 August 2009 on public finance, (OJ of 2017, item 2077).

Guidelines for Authors

PUBLIC GOVERNANCE

Basic rules

The articles must be prepared **with accordance to our technical requirements** and taking our academic ethics code into account. We will reject submissions not prepared according to our requirements.

Before submitting your article, please read and apply the following rules:

- **EASE Guidelines for Authors of Scientific Articles to be Published in English** (version of June 2014) explaining in details how to compose a scientific article according to international standards. **http://www.ease.org.uk/publications/author-guidelines**
  Please read the EASE file carefully before your submission!
- **APA Style Manual** (6th edition of June 2009) explaining in details how to use and cite references and how to apply linguistic rules while writing in English.

For very detailed submission instructions, including *guidelines for authors,* and all other information visit our website at: http://www.publicgovernance.pl/en/

Article length and format

All submitted manuscripts should not exceed the recommended size in accordance with established rules:

30 000 – 40 000 characters, including abstract, keywords, tables, figures, references, etc.

No article submission or article processing fees are charged. Nevertheless, the fee for each additional 1 800 characters (exceeding 40 000 characters) is 20€. The payment will be transferred to the Publisher's bank account after the article's approval for publication.

Only editable formats of text can be sent (doc or docx). We do not accept uneditable formats (e.g. pdf).

Language

1. Papers should be presented in **clear, concise English**. Articles written in poor English will be rejected immediately (and will not accepted even for the review process).
2. We prefer **British English** (e.g. behavio**u**r, not behavior), this is why we strongly ask authors to use British English.

Article structure and abstract

Divide your article into clearly defined sections in the following format:

Research articles	Theoretical articles
1. Introduction State the objectives of the work and provide an adequate background, avoiding a detailed literature survey or a summary of the results.	
2. Literature review *or* ***2. Literature review and hypotheses development*** ***A*** literature survey, revealing all important authors dealing with the topic of the article.	***2. Material and methods –*** including **goals, and research methods**. Provide how the literature was selected to analysis. Methods of analysis should be described.
3. Material and methods – including **goals, hypothesis and research methods**. Provide sufficient detail to allow quantitative research to be replicated. Methods already published should be indicated by a reference: only relevant modifications should be described.	***3. Literature review and theory development*** ***A*** very detailed literature survey, revealing all important authors dealing with the topic of the article.
4. Results and discussion Results should be clear and concise. Discussion should explore the significance of the results of the work, not repeat them.	***4. Discussion*** Discussion should explore the significance of the results of the work, not repeat them.
5. Conclusions – including research limitations and recommendations for future research.	
References Please list all references in alphabetical order. Only references used in the text can be used. **Use at least 4 references indexed in Web of Science!**	

Authors must supply a **structured abstract** on the **Article Title Page**, set out under the following sub-headings:

- **Objectives**
- **Research Design & Methods**
- **Findings**
- **Implications / Recommendations**
- **Contribution / Value Added**

- **Article Classification:**
  - Research article
  - Theoretical article:
    - Conceptual article
    - Original literature review
- **Keywords** (at least 5, maximum 7 words)
- **JEL classification:** at least one code (e.g. F22)
  For JEL codes please visit: http://www.aeaweb.org/jel/guide/jel.php

The title, authors, abstract together with the suggested citation cannot take more than one page, please pay a special attention to fit it to one full page.

Technical Issues

Text

1. **Bullets and Numbering** are accepted only in two formats:

Bullets:	*Numbering*:
– Poland,	1. Poland,
– UK,	2. UK,
– USA,	3. USA,
– Scotland.	4. Scotland.

Use comma (,) after each line of bullets/numbering, and dot (.) after the last one. In most cases please use bullets instead of numbering!
Use each line with the small letter:

Bullets:
– There are three factors (Smith, 1999, p. 2):
– education,
– training,
– consulting.

For full sentences, use (.) after each line and start with the capital letter.
Numbering:
Following Smith (2014, p. 22) we applied the following procedures:

1. Execution of the significance test for individual random effects, allowing to choose between the pooled model, and the model with fixed effects (FE).
2. Execution of the BP test, allowing to choose between the pooled model, and the model with random effects (RE).
3. Execution of the Hausman test, allowing to choose between the FE model and RE.

Please remember to provide with references for each bullets and/or numbering before, not after them!

Other Editorial Requirements

2. Non-English words (including Latin) should be in *italics*.
3. Authors are requested to limit formatting commands to **bold** to the necessary minimum.
4. Authors are requested **not** to use underline words at all
5. To enclose a quotation use single quotation marks, so use 'quotation' not "quotation".
6. Commas and periods go outside closing quotation marks.
7. Please, use high and honest standards for authorship!
   a. If you are referring to the literature you haven't reached directly and have read it somewhere else, please mention where it was quoted originally: e.g. (Smith, 1976, p. 22) as cited in (Lincoln, 2012, p. 12)
   b. Please refer to the particular author of the chapter in edited books! Don't quote the editor of the book, but the particular author of the text you are referring to!

c. Please read the further on 'Academic Ethics Policy' and '**Publication Ethics and Malpractice Statement**.

Data Sources:

8. Please remember to provide with the detailed source for each data you refer to!
   e.g. The population of Poland is 38 533 299 inhabitants (GUS, 2014, p. 4).
9. Never use general source (e.g. Eurostat), but make it as detailed and clear as it is possible, (GUS, 2014, p. 4); (Eurostat, htec_trd_tot4) – where 'htec_trd_tot4' is the code – used by Eurostat – to identify the exact data you refer to.

Transliteration:

10. Only **Latin characters** are accepted in both – the main text and the **list of references**!
11. Use transliteration to all non-Latin letters in the text (e.g. Cyrillic, Chinese, etc.) **including list of references** before submitting the manuscript.
    See: http://www.loc.gov/catdir/cpso/roman.html

Original language		**Latin alphabet (to be used in the article)**
Japanese	経済学	Keizai-gaku
Russian	Предпринимательство	Predprinimatel'stvo
Ukrainian	Підприємництво	Pidpryiemnytstvo

Graphics and Tables

1. All Tables/Figures should be numbered in Arabic Numerals (Table 1) and should appear in the body of the manuscript (Figure 1).
2. Please number all figures as Figure 1, Figure 2 etc. (don't use different names for graphs, schemes, maps, diagrams, charts, line drawings, etc.)
3. Tables/Figures should have their titles according to the rule '**What/Who + where + when'** (e.g. **Table 1. Inflation rate in the European Union in the years 2004–2010**).
4. All table numbers and titles should appear above each table.
5. The numbers, titles of sources of all figures should be provided below each figure.
6. Tables/Figures should be **editable**, Tables must be prepared in MS Word (file format: doc or docx) and MS Excel (file format: xls or xlsx). Figures should **be editable** (MS Visio, Corel Draw, MS Word Drawing Module).
7. Tables/Figures should fit the Journal page – they cannot exceed the size **15.0x21.00 cm (150x210 mm)**
8. At the bottom of each Table/Figure should be indicated the source from which it was taken, or information that it is developed by author.
   For your own original ideas and concepts:
   Source: own elaboration.
   Source: own study.
   If you based your concept on the work of other authors:
   Source: own elaboration based on …

Source: own study based on…

Source: own compilation based on …
Source: own calculations based on Eurostat data available at …..
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9. Always mention the measures (e.g. in %, in USD).
10. For empirical surveys always provide the sampling size (e.g. $n = 650$)
    Please note, that we use N for the whole population and n for the sample.
11. If some abbreviations and acronyms are used in the figures/tables, these should be appropriately described in the main body text of the manuscript where they have been cited/ referenced/interpreted and well as in the footnotes of the figure.
12. All Tables/Figures should be of clear quality in **monochrome** (mono-colour i.e. black, white).
13. **Use clear (white) background in all figures! Don't use any shadows!**
14. **Do not use spatial (3D) charts or diagrams, only simple ones (2D) are accepted.**
15. All Figures have to be submitted in the text as well as in the separate files (source file + file with original look):
    a. Diagrams/Charts: MS Excel + PDF (in order to see how it looks from the Author's perspective).
    b. Other graphics: source file (MS Visio, Corel Draw, we also accept MS Word but only with the module of drawing!).
16. Authors may include graphs prepared using other software (e.g., Corel Draw, Statistica, Stata, SPSS, Harvard Graphics) provided they are with the module of drawing/editing (for example "wmf" or "eps" format, with all the necessary fonts included).
17. Please align the numeric values in the tables to the right and use a uniform number of decimal places in the data presented in the tables and graphs (we advise max. 3 places after dot, e.g. 1.000, please don't use 0.0011111).

Numbers, Formulas and Calculations

Mathematical formulas recommendations

1. Mathematical dependences, their notations in the text and other symbols should be typed in **MS Word 2010 – The Equation Tools Design Tab**:

The *Equation Tools Design* tab is divided into three groups: *Tools*, *Symbols* and *Structures*.

2. Formulas are centred and numbered by Arabic numerals in round brackets and aligned right – **all formulas must be numbered**, e.g. (1), at the right side. There should be single spacing of one line between the formula and the text.

$$\min \rho = 1 - \frac{1}{m} \sum_{i=1}^{m} s_{\bar{i}} / x_{i0} \tag{1}$$

$$X = \begin{bmatrix} x_{11} & x_{12} & \cdots & x_{1n} \\ x_{21} & x_{22} & \cdots & x_{2n} \\ \cdot & \cdot & \cdots & \cdot \\ x_{m1} & x_{m2} & \cdots & x_{mn} \end{bmatrix}, \quad Y \begin{bmatrix} y_{11} & y_{12} & \cdots & y_{1n} \\ y_{21} & y_{22} & \cdots & y_{2n} \\ \cdot & \cdot & \cdot & \cdot \\ y_{m1} & y_{m2} & \cdots & y_{mn} \end{bmatrix} \tag{2}$$

3. Matrices are written in square brackets, vectors by bold-regular typeface.
4. All the numerals, including index numbers, are presented in regular typeface.
5. Work with a large number of formulas to be prepared as follows:
   – simple formulas (one-level) typed with keyboard,
   – complex formulas, (multi-level) should be entered using the equation tools design tab.

Mathematical numbers and money

6. **Use New British English (i.e. American English) for numbers:**
   a thousand million (10^9) is a billion
   (not 'a milliard' as it used to be in Old British English!).
   For details please see: http://mathworld.wolfram.com/Milliard.html
7. **DO NOT** use dots to separate thousands, millions, etc. (e.g. 32 046; 45 263 721; 741 592 438 526).
8. Numbers till 10 are usually best written as full words (one, two, three etc.). 11+ would be written as numbers. There's no strict rule on this: 11–20 may often also be written as words, but 21+ would almost always be put down as numbers. Be consistent over this: don't sometimes write twenty but in other places 20.
9. **Money**
   a) Do not use graphic signs for currencies. Always use international codes (e.g. USD – American dollar, GBP – pound sterling, EUR – euro, PLN – Polish zloty, LTL – Lithuanian litas, RUB – Russian rouble).
   b) The currency codes placed after the numerical value: 4.99 EUR, 100 USD etc. Always make clear what currency you're referring to.
   c) Millions are often abbreviated to m. – for example:
   7m EUR = 7 million EUR
   4.7m USD = 4.7 million USD.
   However, we advise to use full names (million, billion …)

Final Remarks at the End of the Article

- All submissions must include:
  name/degree/title/affiliation,
  corresponding address to ALL authors.
- **We follow good practice in science and research statement** including:
  ○ contribution share of authors for *co-authored articles only,*
  ○ financial disclosure stating all agencies, sponsors or other supporters,
  ○ revealing all authors and/or contributors supporting the article,
  (we applied rules against guest-writing),
  ○ acknowledgements in order to thank to all people supporting the article
  ○ (e.g. all who have contributed to the current state of the article).

..:: REFERENCES ::..

References Quality and Quantity

1. The bibliography **must include more than 10** scientific references.
2. The bibliography **must include at least 4 references indexed in Web of Science**.
3. Recent studies published for last five years must be included in references.
4. **Other than English literature should be kept to the minimum.** We advise to use no more than 20% of references written in non-English languages (unless the country-specific article). Articles based only on Your own domestic literature (in your native language, not English) will be rejected.

Reference Style

Please use APA style for referring literature.

For detailed guidelines visit: http://www.lib.usm.edu/help/style_guides/apa.html

Text*:* All citations in the text should refer to:

5. *Single author:* the author's name (without initials, unless there is ambiguity) and the year of publication (Smith, 2017);
6. *Two authors:* both authors' names and the year of publication, as demonstrated (Alan & Jones, 2010); but in the sentence: Alan and Jones (2010) proved ……
7. *Three or more authors:* first author's name followed by "*et al."* and the year of publication. Citations may be made directly (or parenthetically). Put semicolons (;) between multiple works cited.

Groups of references should be listed first alphabetically, then chronologically. Examples: "as demonstrated (Allan, 1996a, 1996b, 1999; Allan & Jones, 1995). Kramer *et al.* (2000) have recently shown …."

List*:* References should be arranged first alphabetically and then further sorted chronologically if necessary. More than one reference from the same author(s) in the same year must be identified by the letters "a", "b", "c", etc., placed after the year of publication.

Reference to a journal publication without DOI:

Author, A. (Publication Year). Article title. *Periodical Title*, Volume(Issue), pp.–pp.

Examples:

Ku, G. (2008). Learning to de-escalate: The effects of regret in escalation of commitment. *Organizational Behavior and Human Decision Processes*, *105*(2), 221–232.

Sanchez, D., & King-Toler, E. (2007). Addressing disparities consultation and outreach strategies for university settings. *Consulting Psychology Journal: Practice and Research*, *59*(4), 286–295.

Reference to a journal publication with DOI:

Author, A. (Publication Year). Article title. *Periodical Title*, Volume(Issue), pp.–pp. https://doi.org/XX.XXXXX

Example:

Chrabąszcz, R., & Zawicki, M. (2016). The evolution of multi-level governance: The perspective on EU anti-crisis policy in Southern-European Eurozone states. *Public Governance*, 4(38), 17–31. https://doi.org/10.15678/ZP.2016.38.4.02

Reference to a book:

Kidder, T. (1981). *The soul of a new machine*. Boston, MA: Little, Brown & Company.

Gibbs, J. T., & Huang, L. N. (Eds.). (2001). *Children of color: Psychological interventions with culturally diverse youth*. San Francisco, CA: Jossey-Bass.

Reference to a chapter in an edited book:

Labajo, J. (2003). Body and voice: The construction of gender in flamenco. In T. Magrini (Ed.), *Music and gender: perspectives from the Mediterranean* (pp. 67-86). Chicago, IL: University of Chicago Press.

..:: CODE OF ETHICS ::..

Publication Ethics and Malpractice Statement

The author's statement including the copyright notice as well as the statement on ethics and good practice in science (including financial disclosure, ghost-writing firewall, guest authorship firewall) must be submitted alongside the manuscript according to the form provided (see the attachment – **author's statement**) as well as to be mentioned on the article title page.

The Editors adhere to the COPE (Committee on Publication Ethics) Principles of Transparency and Best Practice in Scholarly Publishing.

Among others, we apply the following guidelines:

1. Articles must be original and cannot include borrowings from other works, which could result in liability of the publisher. Papers cannot infringe any third party rights.
2. Articles must reveal the contribution of all individual authors in the creation of publications (with their affiliations and contributions, such as information about who is the author of concepts, principles, methods, protocol, etc. used in the preparation of publications).
3. Article cannot display any signs of 'ghost-writing', that is not to disclose the names of authors who have made a significant contribution to the publication of, or otherwise contributed to its creation.
4. Article cannot display any signs of 'guest authorship' that is assigning a person who did not contribute to the creation of publications.
5. Article must include complete information concerning sources of funding, the contribution of research institutions, associations and other entities ('financial disclosure').
6. Editors and the Publisher will be documenting all forms of scientific misconduct and malpractice, particularly violations of ethics and violations in science. Any such cases will be reported to the employer of the author and to the relevant public and state institutions.

Legal aspects

1. The author shall receive **no remuneration** for the publication of the text.
2. In the case of a paper written by several authors, the author submitting the paper is obliged to seek the agreement of his or her co-authors regarding all the publishing requirements specified above.

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