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The Role of Territorial Governments in Decentralisation of the Economic Activities of the State

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**THE ROLE OF TERRITORIAL GOVERNMENTS
IN DECENTRALISATION OF THE ECONOMIC
ACTIVITIES OF THE STATE
(DURING THE YEARS 2004–2009)**

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Key words: territorial government, State, decentralisation.

A b s t r a c t

The aim of the research was to assess the decentralisation of the economic activity of the State. Analysis of the general activity of territorial governments in Poland during the years 2003–2009 provided the base for that assessment. In practical terms two methods of economic activity are employed: indirect and direct. In the towns possessing the status of counties and in urban municipalities the indirect method dominates. In counties and rural municipalities the direct methods dominate. Employment of different methods leads to systemically different paths of development of the territorial governments in Poland. The need for organisational changes that might correct that unfavourable trend exists. One of the methods for achievement of that goal would involve combining rural counties with rural and urban-rural municipalities in a single organisational structure based on the example of the towns possessing the status of counties.

**ROLA SAMORZĄDÓW TERYTORIALNYCH W DECENTRALIZACJI AKTYWNOŚCI
EKONOMICZNEJ PAŃSTWA (W LATACH 2004–2009)**

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Słowa kluczowe: samorząd terytorialny, państwo, decentralizacja.

A b s t r a c t

Celem badań była ocena decentralizacji aktywności ekonomicznej państwa. Podstawą tej oceny była analiza ogólnej działalności samorządów terytorialnych w Polsce w latach 2003–2009. W praktyce wykorzystuje się dwie metody aktywności ekonomicznej: pośrednią i bezpośrednią. W miastach

na prawach powiatów oraz w gminach miejskich dominuje metoda pośrednia. W powiatach oraz w gminach wiejskich przeważają metody bezpośrednie. Wykorzystanie różnych metod prowadzi do ustrojowo odmiennych dróg rozwoju samorządów w Polsce. Istnieje potrzeba zmian organizacyjnych, które mogą skorygować ten niekorzystny trend. Jedną z dróg prowadzących do tego celu jest połączenie powiatów ziemskich z gminami wiejskimi oraz miejsko-wiejskimi w jedną strukturę organizacyjną na wzór miast na prawach powiatów.

Reasons for the subject and goal of the research

Economic activity of the State, i.e. in practical terms the activity that aims at growth and economic development has been and still is the subject of numerous research programmes within the frameworks of economic sciences. Usually, however, in case of that type of works in Poland the perspective of the country as a whole was assumed. The centralised character of the State determined domination of the sectoral system for managing the country. The role of territorial authorities was limited to performance of centrally defined tasks and duties only. Studies presenting the active and not only the passive role of those bodies proved highly interesting only as of the moment of departing the clearly centralised model of the state. In Poland that took place together with initiation of the systemic transformation.

Establishment of municipal governments represented the first indication of decentralisation of the State. Formally it took place in the Act on territorial government of the 8th of March 1990 combined with the package of other acts on territorial governments (WALDZIŃSKI 2005, pp. 151–152).

The process of decentralisation of the State was continued in the consecutive legal acts. With the new territorial division of the country, on the 1st of January 1999 the counties managed by territorial governments and voivodships managed by territorial governments jointly with central government were established while 65 cities were granted the status of territorial government managed counties. In that way the economic activity of the State performed by territorial governments became as integral part of the more general process of decentralisation of the State. Further important changes in the structures of drafting the budgets of territorial governments took place as of the 1st of January 2004. That evolutionary character of transformation is, however, not completed in 2004 as J. Osiatyński states that the “Proposed changes were divided into the provisional ones (for the years 2004–2005) and target ones that are yet to be implemented” (OSIATYŃSKI 2006, p. 198).

In the here presented research we conduct assessment of the changes implemented during the last stage, i.e. as of 2004. That is the goal of the research presented. The analysis of economic activity of the State in various legal-economic forms of territorial governments during the years 2004–2009

provided the base for that assessment. The State economic activity decentralisation process is implemented at territorial governments by means of two different methods. The dual character of decentralisation then may lead to permanent diversification of territorial governments and those differences may even be of systemic character. That is the research hypothesis.

The nature of decentralisation and the method for investigating the economic activity of the State

The history of the last few decades proves that in Poland the problem of territorial consolidation of the state occurred more frequently. It appeared after both World War I and World War II. Those were the objective premises justifying also centralisation of economic decisions. Additionally, that was also favoured by statism based model of the State that during the years 1945–1989 was implemented in the particularly extreme – non-market formula. Only the systemic transformation initiated in 1990 created favourable conditions for progressing decentralisation of not only the administration but also as a form of economic activity of the State.

In search for the benefits stemming from decentralisation of the economy it is worth to refer to the well-known and very distant in time but still valid theoretical argumentation by Friedrich von Hayek, who presents the fundamental reason for that. The whole knowledge and all the information cannot be gathered in one central location or a few auxiliary centres. The knowledge and information necessary for rapid and effective decision taking are decentralised by necessity. To achieve the situation in which the decision-takers can and are willing to use those resources (or at least a significant part of them) efficiently they must obtain their own benefits from that. Decentralised information then must be coupled with the free enterprise and private ownership. Not all the information, however, but only as much of it as possible must be used in the decentralised way (HAYEK 1935, pp. 210–211).

The processes of decentralisation in the State may not, however, be associated with the progressing liberalisation in our economy only. The special role of the European Union should also be considered. In that way we get to the heart of decentralisation of the economy in the democratic state in which the market system is in operation. In the practice of the European Union it is the division of competences between the community institutions and the national institutions, i.e. the principle known under the name of *subsidiarity*. The Community undertakes actions according to that principle but only when and to such an extent as the goals of the proposed actions cannot be attained efficiently by the Member States. Additionally, that principle is based on a few

practical premises, and the most important of them are, among the others, the following ones (GAWLIKOWSKA-HUECKEL, ZIELIŃSKA-GŁĘBOCKA 2004, pp. 7, 8, 13):

- division of powers into exclusive competences, shared competences and decentralisation of competences;
- the duty of providing the lower tier authorities with financial resources necessary for exercising their competences and allowing them taking independent decisions as concerns allocation of those funds.

As can be seen, the theoretical formula by F.A. von Hayek has been used in the practice of the European Union in formulating the principle of subsidiarity. Although that example applies to the relations between the European Union and the Member States, it can also be used in the practice of departing from the centralised State to the model based on more decentralised economy as this principle is so universal that it also functions effectively in the relations between the central and regional authorities of the country.

In our domestic practice it has found expression from the beginnings of functioning of the municipal governments as well as in the consecutive reforms effective as of 1999 and 2004. That last reform, as claimed by J. Osiatyński – was of the provisional character only but still it implemented an increase in own revenues of territorial governments at the expense of decreasing the share of subsidies and subventions. Special purpose subsidies for financing or co-financing own tasks as well as some of the subsidies for tasks from the domain of government administration have been substituted by increased own revenues of territorial governments. The new solutions aimed at strengthening the position of territorial governments by increasing their revenues and their independence in disposal of funds, and in particular, among others (OSIATYŃSKI 2006, p. 198):

- further decentralisation of public tasks and funds,
- increased share of own revenues in their total funds,
- increased capacity for absorption of the European Union funds,
- creating mechanisms for stimulating enterprise.

Particular attention should be drawn to that last aspect. That opinion indicates the belief that in constructing the economic-financial system in which the share of own revenues is increased simultaneous establishment of mechanisms stimulating local and regional governments is assumed. The mechanism of stimulating enterprise as addressed to territorial governments and it is to work in two directions of which the first one is to support more rational use of the resources available while the other is to serve releasing the initiatives increasing own revenues. **As a consequence, it is a classic example of indirect influence of the State on the increase of revenues of territorial governments and increase in effectiveness of the use of them.**

Both theoretical and practical considerations concern the processes of decentralisation of the State that is transfer of competences, rights and responsibilities from the central authorities onto the bodies of territorial government (municipal, county and voivodship). In practice, the increasing revenues of territorial governments mean increased general decentralisation of the economic activity of the State. However, not only that general activity but, first of all more detailed identification of two different methods of that activity of the State was the key subject issue of the resented studies. Of those two methods the first one was defined as indirect while the second as the direct form of economic activity of the State.

The indirect form of economic activity of the State is identified with the category of own revenues. In territorial governments those, among others, consist of (Ustawa z dnia 26 listopada 1998 r. o dochodach jednostek samorządu terytorialnego w latach 1999, 2000, DzU nr 150, poz. 983, Ustawa z dnia 1998 r.; 26 listopada 1998 r. o finansach publicznych, DzU z 1998 r., nr 2003, poz. 1014, Ustawa z dnia 13 listopada 2003 r. o dochodach jednostek samorządu terytorialnego, DzU nr 203 z 2003 r., poz. 1966):

- revenues from local taxes – agricultural, forest, real property, means of transport taxes as well as tax card, on possession of dogs, on inheritances and donations and on civil-legal transactions;
- revenues from charges – the stamp tax, operational charges, market charges and revenues from property, e.g. tenancy and lease;
- revenues from the share in the PIT and CIT.

The State creates the legal frameworks that are establish the source for generating an important proportion of revenues (own revenues). They are allocated to satisfying the local and regional needs and expectations of the residents. The State requires only that the revenues are spent according to the existing legal regulations and does not intervene in the allocation of such funds. That formula increases economic independence of territorial governments. The level of revenues in that group is determined by the form of territorial government, its location (conditions) and activity of territorial government authorities and residents that J. Osiatyński defines, among others, as enterprise.

The direct form of economic activity of the State is identified with the second part of the total revenues in the budget of territorial governments. It consists of subsidies and subventions. This obviously is an important part of decentralisation of the State but it expresses the level of direct economic activity of the State only. It consists of various forms of subsidies (e.g. allocated for performance of administrative tasks, but not only) and subventions (e.g. educational, balancing, equalizing and compensating). In the revenues of voivodship governments the regional part of the subvention is also included. It

is allocated for equalizing the differences in revenues between voivodships that result from different revenue generating potential, i.e. population density, area of public roads and unemployment rate o (*Budżety jednostek... s 2007*, p. 17). The funds represented by that part of the budgets of territorial governments are in their major part allocated to the purposes defined by the State or serve closing the gaps in the level of development between the regions also as determined by the State. According to that formula the economic independence of territorial governments decreases. The level of that group of revenues is also determined by the form of territorial government and its location while the activity of those governments has no influence. In this case, instead of entrepreneurial attitudes the attitudes based on claims that expect direct support from the central budget in the form of the increased subsidy or subvention are released.

We purposefully point at revenues and not outlays as instruments of the economic activity of the State as outlays may also be financed from other sources and not only from revenues. This can include e.g. loans, territorial government bonds or the European funds. The loans and bonds, however, result in the increased indebtedness of the beneficiaries. The scale of that indebtedness is limited by the law but still within the frameworks of the existing legal possibilities differences can develop between territorial governments that are not consequences of endogenous conditions or institutional economic activity of the State but that result from a combination of frequently incidental circumstances, including also subjective decisions of local or regional authorities.

The choice of research tools for analysis of the economic activity of the State represented another methodological issue. The most general macro-economic indicator, which is the GDP level, was assumed for the reference point. The relations of total revenues of territorial governments to that indicator define the general level of decentralisation. With the increase in the share of the total revenues of territorial governments in the GDP the general level of decentralisation of the economic activities of the State also increases. Then, the share of own revenues in total revenues of territorial governments defines the character of that activity of the State that is whether it was indirect or rather direct. With the increase in the share of own revenues in the total revenues the indirect economic activity of the State increases and the other way round, when that share decreases the direct activity increases. The studies covered the period of 7 years from 2003 until 2009 and the first year of the resented study was the last before the reform effective as of the 1st of January 2004. In that way the effect of the changes introduced at that time as well as the consequences of that change during the consecutive years could be captured.

General decentralisation of economic activity of the State

Both upward and downward phase of the market cycle occurred in Poland during the period covered by the study. That entire period could be divided into three different parts where the two earlier parts are the upward stages while the third one represents the downward trends. During the years 2003–2005 the economic growth rate was moderate as it was within the range of 3.6%–5.3%. The high growth rate was recorded during the years 2006 and 2007 when the GDP growth rate exceeded 6%. During the last stage, the years 2008 and 2009 are the period during which downward stage of the market cycle is evident.

The data presented in Table 1 indicate that the highest increase in general decentralisation of economic activities of the State was recorded during three consecutive years (2004, 2005 and 2006). This for sure is the effect of changes introduced by the reform effective as of the 1st of January 2004. In each of the years covered by the studies the increase in general decentralisation takes place. Those relations, however, do not consider the cyclic character of changes in the GDP growth rates. The evident slow-down of economic growth during the years 2005 and 2009 did not inhibit the increasing general decentralisation of economic activities of the State. This results from the fact that changes in the GDP growth rates are not decisive for the increasing level of general decentralisation of the State where it rather is the effect of changes in legal solutions.

Table 1
General level of decentralisation of the economic activity of the State during the years 2003–2009

Item	2003	2004	2005	2006	2007	2008	2009
GDP growth rate in % Preceding year = 100	103.9	105.3	103.6	106.2	106.6	105.0	101.7
Relation of total revenues of territorial governments to the GDP in %	9.4	9.9	10.5	11.0	11.2	11.2	11.5

Source: own computations based on:

Year economic measures by the Central Statistical Office (GUS), PUBL_roczne_mierniki_gospodarze_cz.IV;

Budgets of the units of territorial governments 2003–2009 GUS, PUBL_rn_budz_jedn_sam_teryt_lata_2003-2009-20.02.2011, 9.41 hours. Poland – macroeconomic indicators GUS, Warszawa 2008, http://www.stat.gov.pl/cps/rde/xbr/gus/PUBL_polska_wskazniki_makroekonomiczne2008_pl.pdf, http://www.stat.gov.pl/cps/rde/xbr/gus/PUBL_rn_produkty_krajowy_brutto-2009-szac_wst.pdf (14.10.2010).

Considering the assessed issue of the relations between the indirect and direct form of economic activity of the State not only the analysis of total revenues but first of all the structural sources of those revenues, that is own

revenues as well as subsidies and subventions obtained by various tiers of territorial governments are particularly important.

Economic activity of the State in different forms of territorial government

As of the 1st of January 1999, in Poland, territorial governments are practically divided into 4 different and hierarchically not interdependent legal-economic forms. Next to the territorial governments of municipalities, counties and voivodships 65 territorial governments of the largest towns obtained the status of towns with the status of counties combining the competences of the municipalities and counties. In that way the concentration of real powers occurred that has its source in two different systems – one of the municipalities and one of the counties. That fact should be related directly to the subject of the presented studies. As a consequence the analysis of decentralisation of economic activities of the State covers all territorial governments in Poland and its four legal-economic forms.

Studies based on a similar system but for the years 1999–2005 were also conducted by L. Jędrzejewski. The results he obtained indicate that as of 2004 own revenues started dominating among sources of revenues of all territorial governments. Their share during the years 1999–2003 was at the level of slightly above 40% (40.8%–43.7%) while during the years 2004 and 2005 51.5% and 53.3% respectively. Towns possessing the status of counties with over 60% share and voivodships in case of which that share is at a similar level are characterised by the best situation as concerns financing their activities with own revenues. In case of the municipalities that share does not exceed 50% while the situation of the counties looks the worse as the share of own revenues in them does not exceed the threshold of 30% (JĘDRZEJEWSKI 2007, p. 36).

In practical terms the general process of decentralisation of economic activity of the State can be achieved by two possible methods. If the structure of revenues is dominated by own revenues we talk about domination of the indirect economic activity of the State. On the other hand, when the budgets of territorial governments are dominated by subsidies and subventions we also deal with decentralisation but it is based on domination of the direct economic activity of the State. The possibility of choosing various combinations of the direct and indirect economic activity of the State in case of one institution of territorial government provides a very handy tool for gradation of transformations. That evolution based direction of development was also assumed in Poland and year 2004 was one of the consecutive stages in those transformations.

The data presented in Table 2 indicate that the highest increase in the indirect economic activity of the State took place in 2004 which means that we dealt there with the decisive role of the legislator. During the consecutive two years (2005 and 2006) that share stabilised at the level similar to that of 2004. During the further years (2007 and 2008) a certain increase in the indirect economic activity as well as a very serious decrease by as much as 6.4 percent points in 2009 (from 55.0% to 48.6%) could be observed.

Table 2
Indirect economic activity of the State in different legal-economic forms of territorial governments during the years 2003–2009

Item	2003	2004	2005	2006	2007	2008	2009
Relations of own revenues to total revenues of territorial governments in %	42.0	50.2	50.6	50.1	52.3	55.0	48.6
Including							
Relations of own revenues to total revenues of municipalities in %	44.7	46.5	44.9	43.6	46.6	49.3	46.3
Relations of own revenues to total revenues of counties in %	10.4	24.1	27.2	27.9	29.6	32.4	28.4
Relations of own revenues to total revenues of towns with the rights of counties in %	55.7	63.4	64.5	64.5	65.7	69.5	66.1
Relations of own revenues to total revenues of voivodships in %	15.4	58.9	62.5	55.9	57.9	58.5	32.3

Source: own computations based on:

Year economic measures by the Central Statistical Office, PUBL_rocne_mierniki_gospodarcze_cz. IV; Budgets of the units of territorial governments 2003_2009 GUS, PUBL_rn_budz_jedn_sam_teryt_lata_2003–2009-20.02.2011, 9.41 hours. Poland – macroeconomic indicators GUS, Warszawa 2008,
http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL_polska_wskazniki_makroekonomiczne2008_pl.pdf
<http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL-rn-produkt-krajowy-brutto-2009-szac-wst.pdf>
 (14.10.2010).

That significant decrease was the consequence of evident decrease in revenues of the budgets of territorial governments from own revenues. While the total revenues in 2009 increased as compared to 2008 (at current prices) by more than 8.6%, the own revenues decreased during the same time by ca. 3.9%. Simultaneously the general subventions from the State budget increased by almost 12%. The decrease of revenues from the corporate income tax by almost 11.5% and personal income tax by ca. 5.5% was the main reason for the decrease of own revenues in absolute terms in 2009 (Budgets-2009, own

computations). The evident slowdown of economic growth in Poland then was of decisive influence on the decrease in the indirect economic activity of the State in 2009.

The statutory changes effective as of 2004 and the serious slowdown of the economic growth in Poland in 2009 influenced not only the total effects for territorial governments but also manifested themselves in the individual legal-economic forms of those governments. In all of them the increase in the indirect economic activity was recorded in 2004 but the largest changes in that respect occurred in territorial governments of voivodships and counties. In all territorial governments that level also decreased in 2009. The conducted studies indicate, however, that the differences occurring between individual legal-economic forms of territorial governments seem to be much more interesting. Only in the towns possessing the status of counties the indirect method of economic activity of the State dominates. For sure this is not just the result of combining the rights of municipalities and counties. The largest towns in Poland concentrate in their areas the dominating part of production and service activities and as a consequence they generate own revenues at such a level that it determines the character of the economic activity of the State (indirect) in that group of territorial governments. A relatively high share of indirect economic activity but highly diversified during individual years, can also be recorded in case of the territorial governments of voivodships. Counties, on the other hand, are mainly associated with domination of the direct activity of the State although changes in the law as of 2004 increased clearly in that case also the role of indirect instruments.

Municipalities seem to be the most stable form as concerns the here presented subject of studies. In that case the direct activity of the State dominates and the relation of own revenues to total revenues retains the similar level within the range of from 43.6% in 2006 to 49.3% in 2008. All the municipalities in Poland operate in the identical legal-economic form but they have the form of urban, urban-rural and rural municipalities. This has consequences that are presented in Table 3. The data indicate that within the same legal-economic form there are urban municipalities with evident domination of the indirect for of State activity and the rural municipalities where direct activity dominates. The practical explanation for that dichotomy is relatively simple. The major sources of generating own revenues that are personal income tax and corporate income tax as well as real property tax are positioned in towns. The rural areas on the other hand are compensated for that specific shortage with the increased specific purpose subventions from the State budget and in that way the direct economic activity of the State in rural municipalities increases.

Table 3

Indirect economic activity of the State in municipalities during the years 2003–2009

Item	2003	2004	2005	2006	2007	2008	2009
Relations of own revenues to total revenues of municipalities in %	44.7	46.5	44.9	43.6	46.6	49.3	46.3
Including							
Relations of own revenues to total revenues in urban municipalities in %	59.0	61.6	61.7	62.5	64.8	65.2	61.9
Relations of own revenues to total revenues in urban-rural municipalities in %	48.9	50.0	50.1	49.1	51.1	51.0	48.0
Relations of own revenues to total revenues in rural municipalities in %	39.7	39.6	40.5	38.0	39.9	39.3	36.8

Source: own computations based on:

Year economic measures by the Central Statistical Office, PUBL_roczne_mierniki_gospodarcze_cz.IV; Budgets of the units of territorial governments 2003–2009 GUS, PUBL_rn_budz_jedn_sam_teryt_lata_2003–2009-20.02.2011, 9.41 hours. Poland – macroeconomic indicators GUS, Warszawa 2008,

http://www.stat.gov.pl/cps/rde/xbr/gus/PUBL_polska_wskazniki_makroekonomiczne2008_pl.pdf

http://www.stat.gov.pl/cps/rde/xbr/gus/PUBL_rn_produk_krajowy_brutto-2009-szac_wst.pdf (14.10.2010).

Not the causes are the most important here but consequences resulting from the fact that different legal forms of territorial governments (towns possessing the status of counties and urban municipalities) are becoming very similar in the level of indirect activity of the State while among municipalities very serious differences in that respect occur. Among Polish territorial governments a specific development dualism develops as a consequence. On one hand, we have relatively wealthy towns and relatively wealthy rural areas situated around large and medium size towns. The economic potential existing in those units allows favourable development of local self-government. That development is based on high and increasing own revenues that are, among others, the consequence of reforms introduced in Poland including the last one, effective as of 2004. The other pole is occupied by municipalities, particularly rural ones, and among them those most distant from towns in which the economic potential is so small that it requires substantial support from the State budget. If the currently existing legal solutions are retained for consecutive years than even systemic differences can become well established between so diversified territorial governments because on one hand this is the process of progressing real decentralisation of the state and inspired by that process of increasing local self-government that in a longer perspective will surely result in the

initiatives supporting local development, not only economic but also cultural and civilizational. That direction is already visible in the towns, particularly those possessing the status of counties, and in urban municipalities in which authentic self-government that has support of the local economic base provides the base for local development.

On the other hand, actual limitation of real self-government caused by the lack of potential for increasing own revenues in territorial governments situated in worse positions – so characteristic for rural municipalities distant from towns – already now causes different attitudes. In such local communities expectations of external support increase explaining at the same time the creative initiatives that find no sufficient support in the local material resources. If no changes take place there then in the perspective of a few years that process will not only cause permanently dominating attitudes based on claims but may also cause permanent escalation of such behaviours. So those are not just technical differences in the methods of managing the State but they are almost entirely different philosophies of performance of territorial government.

Under such circumstances the project of combining rural municipalities and counties in one organisational structure based on the example of the towns with the status of counties may seem worth considering. That proposal might be particularly interesting for all the units of territorial government possessing rather limited powers that is possessing low own revenues to their budgets. It is addressed in particular to rural counties and rural and urban-rural municipalities situated within their areas. Currently in those cases we deal with scattering of the real power that results not only from the low level of own revenues but also the necessity of sharing the revenues with municipalities that are not hierarchically subjected to them. In the Polish reality we frequently deal there with the competition between the county authorities and the municipality. If additionally those authorities originate from different political options then lack of agreement is almost certain. As a result deconcentration of already small economic potential takes place, which for sure does not lead to any improvement in rationality of governance. To prevent those negative processes the current locations of counties could be converted into centres with more real authority resulting from combining the revenues of the counties and municipalities. With the dynamically developing road transport and electronic communication there is no necessity for maintaining the centres of municipal authority within the distance of less than 20–30 km from the place of residence; that is why such a systemic suggestion that would actually increase the scope of local authority is worth considering. Good experiences and examples from towns possessing the status of counties could be used here relatively easily. Increasing in that

way the scope of local power – through its concentration – we would, at least partly, decrease the progressing dichotomy between the development of towns possessing the status of counties and urban municipalities on one hand and the other units of territorial government on the other. Merging counties with municipalities situated within their area will not, however, eliminate the consequences of their disadvantaged location. Those unfavourable conditions should be improved by increasing the share of local budgets in revenues from the PIT and CIT while subsidies and subventions from the State budget would play the complementary role only.

Conclusions

1. The progressing processes of systemic transformation in Poland encompass also three important stages of decentralisation of the State that took place in 1990, 1999 and 2004. The general decentralisation of economic activity of the State – in relation to the territorial governments – is expressed by the increasing relation of total revenues of territorial governments to the GDP level. During the years 2003–2009, however, it was not a significant increase but it was systematic and it ranged from 9.4% to 11.5% that is it increased by over 2 percent points. This indicates that during that time the increase of total revenues in the budgets of territorial governments was ahead of the GDP increase in Poland.

2. The process of progressing general decentralisation of economic activity of the State, with institutional use of territorial governments, is developing in Poland in dual form. The increase of economic independence of territorial governments is the first of the practical methods employed for that purpose. That direction of transformations leads to development of the indirect form of economic activity of the State. Limiting economic independence of territorial governments and substituting it with subsidies and subventions from the State budget for performance of specific tasks is the other method. This method leads to development of the direct form of economic activity of the State. Those two represent fundamentally different paths that differ not only in the technical aspect but have serious consequences of even systemic character.

3. As of 2004, clear diversification in selection of methods for economic activities of the State has been observed. In the towns possessing the status of counties and in urban municipalities the indirect influence dominates while in counties and urban-rural municipalities, and in particular rural municipalities, the direct form of activity dominates. It can be assumed then that if no significant changes take place in that dual form, territorial governments will develop in two different directions. Of those two the first, indirect, one will

represent self-government based model while the other, direct, one will have less and less in common with self-government. That systemic dissonance could be mitigated by, among others, changes of organisational nature. One of the proposals that support that postulate could be, for example, merging municipalities (particularly rural ones) and rural counties into one organisational structure similar to the towns possessing the status of counties.

4. Creating a mechanism that increases effectiveness of local authorities in efforts for economic development represents the most effective instrument of the indirect economic activity of the State. This is also the active role of the territorial government authority that initiates and supports local development at the same time limiting the expansion of attitudes based on claims. That initiative also matches the opinion expressed by J. Osiatyński that the “proposed changes have been divided into provisional ones (for the years 2004–2005) and the target ones that are to be implemented yet”. This can be the direction of the further increase of the indirect economic activity of the State.

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