

POLISH BORDER COMMUNES – FISCAL SLACK OR FISCAL STRESS?

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Abstract: This article provides an analysis of the financial position of Polish land border communes. It demonstrates that generally budgets of Polish local governments benefit from their location along the state borders. However, a regional diversification of the impact can be observed. The article addresses a question which communes (located along which borders) benefit from their border location and which lose out on it. An impact of border crossings on the analysed situation is also discussed. To this end, an index of the financial position of communes has been created and used as a basis for the classification of all Polish communes in a few statistical groups presenting different financial positions (very good, good, average, etc.). Border communes have been described in this context. The categories of revenue particularly influenced by the border location have been also identified. In the last part of the article, the communes that can definitely boast of a "fiscal slack" have been identified.

Key words: fiscal slack, fiscal stress, financial position, border, commune

Geographical location is one of the basic factors determining development of an area (communes, regions, countries). Numerous diversified factors which determine specific features of a location include, among others, proximity of the state border. The aim of the article is to examine the impact of the border on Polish communes' budgets. Are the communes located along the Polish border characterized by a good financial position (fiscal slack) or rather a bad one (fiscal stress)? Is the situation influenced by their border location? Is a regional diversification of the impact noticeable? If it is, which border ensures the best situation? And finally, what is the role of border crossings?

Szul (1999) believes that the impact of the border on the situation of a border area may have a diversified nature. First of all, according to Christaller's and Losch's classic theories, the situation of border areas is disadvantageous in comparison to areas inside a country territory. It results from a "cut off" impact of urban and industrial areas located close to the border. Secondly, one can discuss synergy advantages of a border location resulting from access to resources of both neighbouring countries (e.g. access to cheaper factors of production on one side of the border and a rich sales market on the other). However, the border openness and low costs of crossing the border as well as differences

between both sides of the border in terms of their economic parameters, are preconditions to synergy advantages. Thirdly, the border may also be a neutral factor. It is the case when the border does not create any barrier and economic conditions (prices, salaries, taxes, etc.) on both sides of the border are the same. Translating the theoretical considerations into the Polish border areas, Szul concludes that in the western border area one can observe clear advantages of the border location in a form of increased income from trade and services (synergy effect), foreign investment inflow, access to a wider market offer in trade, services, etc. On the other hand, the opening of the border in the south and east resulted mainly in the limitation of disadvantages and weak synergy effects in some places. However, at the eastern border, an intensification of disadvantages resulting from the border location has been observed again since 1998.

Gałązka and Mync (1999), based on an analysis of the present conditions and changes of economic activities in the border regions, state that:

1. there are significant differences in the economic activity level between the western and eastern border areas;
2. in the southern border area, the western part (along the border with the Czech Republic) is distinguished by its higher economic activity, as well as the eastern part, with a lower economic activity, but supported by active non-registered tourist business;
3. in the period of "the border opening", disparities between the border regions deepened to the disadvantage of the eastern border regions.

Naturally, the above-mentioned conclusions refer to a widely defined situation of the border areas recognized as a border zone even a few dozen kilometres wide. It is worth verifying, however, whether the above conclusions correspond to border commune budgets and their financial positions?

1. RESEARCH METHODOLOGY AND METHODS

This analysis has covered all communes located along the Polish land borders. A set of 159 units has been created including:

- ◆ 48 communes located along the Czech border (including Bogatynia and Istebna communes),
- ◆ 26 communes located along the Belarusian border (including Włodawa),
- ◆ 23 communes located along the German border,
- ◆ 23 communes located along the Slovak border,
- ◆ 21 communes located along the Ukrainian border,
- ◆ 12 communes located along the Russian border (the Kaliningrad Region), and
- ◆ 6 communes located along the Lithuanian border.

In order to identify a financial position of a commune, a synthetic index presenting a sum of the following components has been used (data for 2002):

1. a sum of:
 - own revenues per capita
 - a commune share in personal income tax (PIT) per capita
 - a commune share in company income tax (CIT) per capita
2. operating surplus per capita presenting a difference between current revenues and current expenditures, where current expenditures are defined according to the binding

budget classification and current revenues as all revenues of a local government excluding subsidies for investment projects and revenues from sale and lease of a municipal property¹ (Swianiewicz, 2003).

The index constructed in this way has made it possible to classify all Polish communes. The communes have been divided based on the value of the financial position index. It has been assumed that:

- ♦ a group of communes with a very good financial position includes communes whose distance from the standard was lower than $x' - 0,3d$
 - ♦ a group of communes with a good financial position includes communes whose distance from the standard was lower than $x' - 0.3d$, $x' - 1/8d$
 - ♦ a group of communes with an average financial position includes communes whose distance from the standard was within the range of $x' - 1/8d$, $x' + 1/8d$
 - ♦ a group of communes with a bad financial position includes communes whose distance from the standard was within the range of $x' + 1/8d$, $x' + 0.3d$
 - ♦ a group of communes with a very bad position includes communes whose distance from the standard was higher than $x' + 0.3d$;
- where: x' – average, d – standard deviation.

2. FISCAL SLACK OR FISCAL STRESS?

Diagram 1 presents the classification of communes to respective ranges. As it is demonstrated, the financial position of 159 communes located along the state borders is approximate to the average situation of all communes in Poland. While budgets of 15 per cent of Polish communes are in a very good and good situation, the same applies to about 19 per cent of the border communes and 20 per cent of communes where border crossing are located. As far as the latter group is concerned, it should be emphasized that there is a significant percentage of the best units in the group which are classified to the group with the best situation; the percentage is almost two times higher than the percentage in the same range for the group of all communes in Poland.

The difference is small and, interestingly, it is to the advantage of the analysed group. It would prove that in case of the average for all border communes one should rather discuss the advantages resulting from such a location.

One should certainly expect a regional diversification of the situation described above. Taking into account that the average value of the index used here is 100 for the entire Poland, the structure of average values for communes located along respective borders is presented in column 2 of Table 1. As it is demonstrated, communes located at the western border, the Czech border and the Belarusian border enjoy higher values than the average for Poland. However, if the average value is replaced by the median value (thus eliminating the impact of single units with exceptionally high values distorting the total picture), only the communes located along the German border are ranked above the average for Poland.

¹ In Poland, the operating surplus is exclusively an analytical category (as opposed to many countries where current budgets and investment budgets are differentiated).

Table 1 Financial position of border communes benchmarked against the average position for Poland

Communes located along the border with:	Average *	Median*
Germany	100.29	100.31
Czech Republic	100.09	99.80
Belarus	100.05	99.59
Slovakia	99.90	99.53
Lithuania	99.51	99.54
Ukraine	99.45	99.40
Russia	99.35	99.36

NOTE: The values present distances from the standard, therefore, their reference to the average is important rather than insignificant differences between them.

Source: the author's own calculation based on data from the budget reporting of the Ministry of Finance

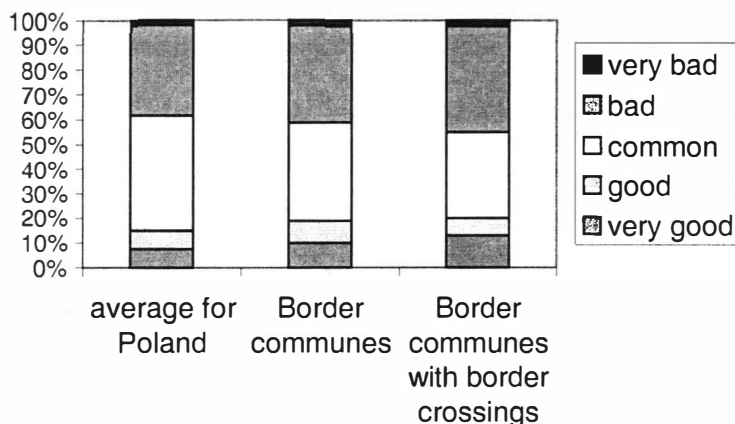


Diagram 1 Average financial position of border communes benchmarked against all communes in Poland (2002). Source: the author's own calculation based on data from the budget reporting of the Ministry of Finance

The observation is even more precisely illustrated by Diagram 2. It demonstrates that a genuine “fiscal slack” first of all refers to the communes along the border with Germany. In terms of finance, as much as over 40 per cent of them is performing very well and well, confirming the opinion of Szul (1999, p. 23) that “the western border is the source of the largest economic advantages (...)”. The analysis of Diagram 2 also confirms the view of Gałazka and Mync that the western part of the southern border region is distinguishing – in fact, the communes located along the border with the Czech Republic are in a very good financial position, definitely better than the communes at the border with Slovakia. Almost half of the latter is in a bad condition and every eighth one is performing very well.

As expected, the worst situation is observed at the eastern and northern (with the Kaliningrad Region) borders. Three fourths of the communes located along the Russian border and almost two thirds of the communes located along the Ukrainian border are in a bad financial position and all others – in the average. The communes neighbouring on Lithuania do not perform much better. At this background, the communes located along the Belarus border are ranked unexpectedly well, with their index structure closer to the Slovak border rather than the Ukrainian or Lithuanian ones.

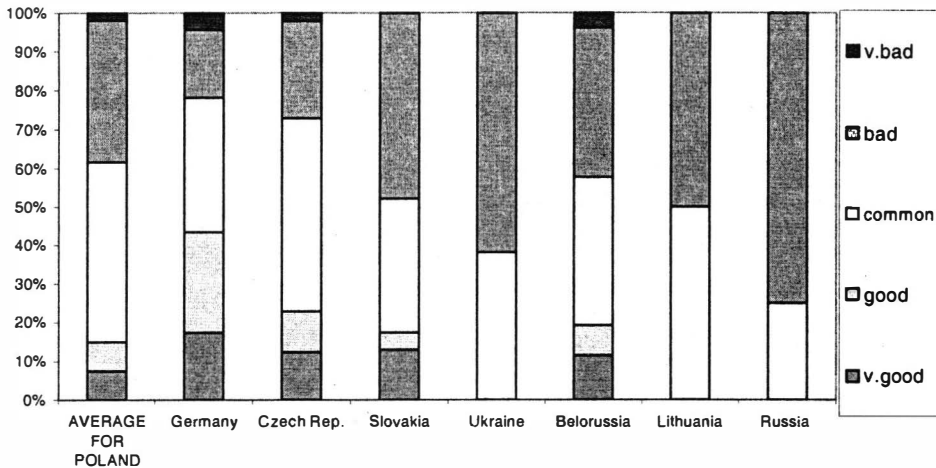


Diagram 2 Financial position of border communes by border type (2002). Source: the author's own calculation based on data from the budget reporting of the Ministry of Finance

In order to explain the situation, it is necessary to study the details of respective components of the index and verify which income categories have an impact on the state of affairs. Diagram 3 presents how each of the four components of the index of a financial position of communes located along a specific border relates to the national average. The communes located along the German border are distinguished by their very high own revenues. Taking into account the fact that the main source of own revenues of commune authorities in Poland is a property tax (Swianiewicz, 2004), it may be assumed that it is the tax that generates own revenues at such a high level in the communes located along the western border of Poland. As it is shown in Table 2, the thesis is definitely correct since the property tax per capita in the communes is not only higher than in all others, but it is also by over 30 per cent higher than the average for Poland. How to interpret the fact? Generally speaking, the property tax in Poland is (with some small exceptions) not related to market value but is based on square metrage with coefficients for the type of use. It can be a few dozen times higher for commercial properties than for individual persons' (Act on local taxes and charges). Therefore, high revenues generated by the tax may be explained in two ways: stimulation of the economy development is conducive to constructing bigger buildings (a tax base is increased) and to allocating a larger space for commercial purposes allowing for the collection of a higher tax. Summing up, the communes located along the German border owe their very good financial position mainly to the favourable economic situation which, first of all, translates into revenues from property taxes.

The communes located along the Czech border are distinguished, as presented in Diagram 3, by their above average revenue generated from a commune share in PIT. The fact can be hardly explained only by the border proximity since the communes are located in the area with well-developed tourism. Additionally, some of them are located in the range of influence of the Upper Silesian Industrial Region. Due to the above, taxes in the communes located in the eastern part of the Polish-Czech border are often paid by wealthy inhabitants, however, the reason of the affluence is not necessarily connected with the state border proximity.

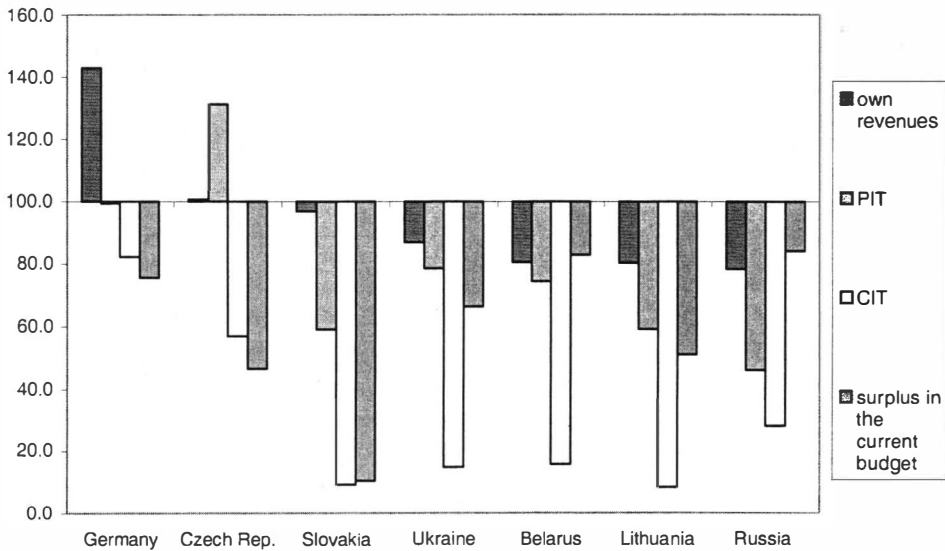


Diagram 3 Budget indicators: median as a percentage of the average value for all Polish communes (the average = 100). Source: the author's own calculation based on data from the budget reporting of the Ministry of Finance

Table 2 Property tax against own revenues of border communes (2002)

Communes located along the border with:	Property tax per capita (average, in zł)	Property tax as a percentage of own revenues (average)
Belarus	267.8	49.6
Czech Republic	287.0	51.0
Lithuania	140.7	41.1
Germany	322.5	48.5
Russia	128.8	31.1
Slovakia	211.5	49.8
Ukraine	154.1	39.9
POLSKA	245.5	47.3

Source: the author's own calculation based on data from the budget reporting of the Ministry of Finance

The two budget categories mentioned above are the only ones where the communes located along the Czech and German borders are distinguished in comparison to the average for the entire Poland. However, the category in which the border communes are the least successful are revenues from a commune share in CIT. According to Diagram 3, the revenues in the budgets are marginal in comparison to the country average (perhaps with an exception of communes from the western and south-western border where it is not so explicit). It results from the fact that companies are very seldom established close to the border or are not registered there and pay the majority of their taxes to budgets in other locations (e.g. Warsaw or Wrocław).

3. LEADERS

All the above analyses have demonstrated an average position based on statistical calculations and have presented communes located at a specific border as a whole. The attention should also be paid to leaders, i.e. the communes which achieved the highest index analysed here and are classified in the group of communes with the best financial position. They are identified in Table 3, while Diagram 4 presents a geographical structure of the classification of all Polish communes.

Table 3 Border communes classified to the group of communes with the best financial position in Poland

Along the border with:	Communes:
Germany	Świnoujście, Police, Kolbaskowo, Słubice
Czech Republic	Bogatynia, Szklarska Poręba, Karpacz, Złoty Stok, Cieszyń, Ustroń
Slovakia	Zakopane, Muszyna, Krynica Zdrój
Belarus	Terespol, Mielnik, Michałowo

Source: the author's own calculation based on data from the budget reporting of the Ministry of Finance

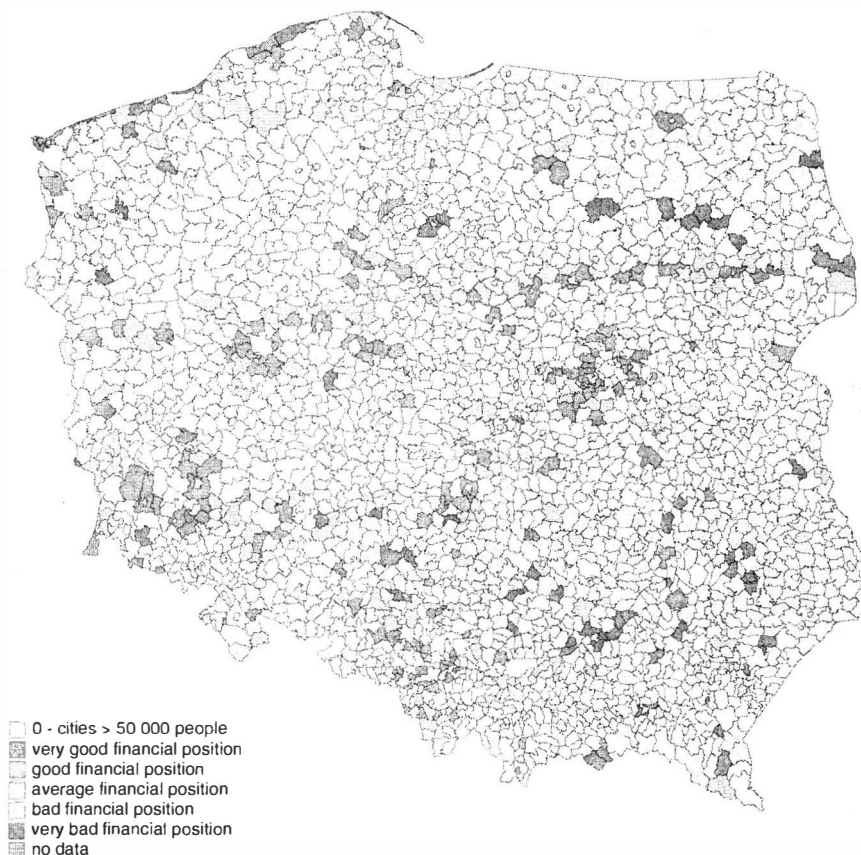


Diagram 4 Financial position of polish communes in 2002

Analysing the list of the communes, it is noticeable that there are a few units which are ranked high almost exclusively thanks to their border location (and specifically a border crossing operating in their territories). They definitely include: Kołbaskowo, Słubice, Cieszyn, and Terespol. Communes such as Szklarska Poręba, Karpacz, Ustroń, Zakopane, Muszyna, Krynica Zdrój and, to a certain extent, Świnoujście are the communes which owe their financial success to the development of tourism rather than proximity of the state border. The attention should also be drawn to Michałowo commune at the border with Belarus where a zone of communes distinguished by their very good and good financial positions begins to stretch to the west (Diagram 4). It is a zone of communes that the gas pipeline from the Yamal Peninsula to Europe runs through. It is an interesting fact since it demonstrates how a single apparently “minor” element of the infrastructure is able to impact the situation in comparison to the rest of the country.

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Polskie gminy przygraniczne – dobrą czy złą sytuacją finansową?

Resume

Jednym z podstawowych czynników przesądających o rozwoju obszarów (gmin, regionów, krajów) jest położenie geograficzne. Do wielu różnych czynników, które przesądają o specyfice położenia, należy m.in. obecność granicy państwowej. Celem niniejszego artykułu było zbadanie, w jaki sposób wpływa ona na funkcjonowanie gmin oraz ich budżetów w Polsce. Czy gminy położone wzdłuż polskich granic charakteryzują się dobrą (fiscal slack) czy raczej złą sytuacją finansową (fiscal stress)? Aby odpowiedzieć na to m.in. pytanie, stworzony został wskaźnik sytuacji finansowej, na podstawie którego wszystkie polskie gminy podzielone zostały na kilka statystycznie stworzonych grup o różnej sytuacji finansowej (bardzo dobrej, dobrej, przeciętnej, itd.). Na tym tle pokazane zostały gminy przygraniczne. Wyróżnione zostały gminy położone

przy różnych granicach, ale także gminy, na obszarze których znajdują się przejścia graniczne.

Przeprowadzona analiza pokazała, że wśród wszystkich gmin położonych wzdłuż granic państwa najlepszą sytuacją finansową pochwalić się mogą te graniczące z Niemcami, najgorszą zaś – z Ukrainą, Litwą oraz Rosją. Ciekawostką jest, iż zaskakująco dobrze prezentują się na tym tle gminy położone wzdłuż granicy z Białorusią. Ponadto, spoglądając na gminy przygraniczne z najlepszą sytuacją finansową widać, iż za taką sytuację często odpowiadają czynniki inne, niezwiązane z obecnością granicy, jak np. atrakcyjność turystyczna.