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Assessment of the state's economic activity - selected problems

Abstract

Some form of activity of the Member States are essentials to its proper functioning. The range of tasks that you should perform, however, remains controversial. For this reason, it is not easy to decide conclusively whether the activities carried out during the period were necessary and appropriate to the needs and expectations of society. Because the activity of the State, on the one hand, absorbs the financial measures, on the other hand, calls the effects, it is necessary to evaluate not only the scale of involvement of Member States, but also the efficiency of the implementation. The available assessment tools are too poor to get a true and fair picture of the situation. Meanwhile, decisions about the shape of the State's activities in the future are taken on the base of the results obtained. Consequently, a significant part of public funds is targeted for tasks of low level of social acceptance.

Keywords: the State's activity, social needs, social expectations, publicly provided goods, privately provided public goods, the State's activity assessment.

JEL CODE: H1, H4, H41, H410, G28.

Ocena aktywności gospodarczej państwa - wybrane problemy

Abstrakt

Pewne formy aktywności państwa są nieodzowne dla jego sprawnego funkcjonowania. Zakres zadań, które państwo powinno wykonywać pozostaje jednak przedmiotem kontrowersji. Z tego względu nie jest łatwo rozstrzygnąć jednoznacznie, czy działania prowadzone w danym okresie były potrzebne oraz adekwatne do potrzeb i oczekiwań społecznych. Ponieważ aktywność państwa z jednej strony pochłania określone środki finansowe, z drugiej – wywołuje określone skutki, konieczna jest ocena nie tylko skali zaangażowania państwa, ale również efektywności realizowanych przedsięwzięć. Dostępne narzędzia oceny ograniczają w znacznym stopniu uzyskanie pełnego i rzetelnego obrazu sytuacji. Tymczasem decyzje dotyczące kształtu aktywności państwa w przyszłości są podejmowane na podstawie uzyskanych wyników. W konsekwencji znaczna część środków publicznych jest kierowana na realizację zadań niezgodnych z oczekiwaniami społecznymi.

Słowa kluczowe: aktywność państwa, potrzeby społeczne, oczekiwania społeczne, dobra dostarczone przez sektor publiczny, dobra publiczne dostarczone przez sektor prywatny, ocena aktywności państwa.

Introduction

When considering the state's involvement in economic activity, it is often useful to divide goods into private and public goods (e.g. Stiglitz 2004, p. 17, Owsiak 2005, pp. 27-28).

Public goods include goods that are not the subject of competition and from consumption of which no one can be excluded. Therefore, the public good can be used by many people without the need to pay, which is the reason for the lack or too low profitability of the production of public goods. Because of that, private entrepreneurs are usually not interested in producing them (Czarny 2011, p. 287, 315). However, public goods are used to satisfy collective needs, so it becomes the duty of the state to provide society with proper access to these goods. Although the presence of public goods in their pure form (i.e. meeting the conditions mentioned above in full) is limited in reality, it is not possible to ensure proper access to these goods without state intervention. The state provides the necessary goods by carrying out specific public tasks.

The existence of public goods is only one of the manifestations of market failure. At the same time, it is an important premise for the state to undertake economic activities, sufficient to consider certain forms of economic activity of the state necessary for its efficient functioning and the good of society (Czarny 2011, p. 315). The scope of these activities is the subject of controversy.

Many years of economic practice have shown that the nature and scale of public administration activities in various countries are similar, but not the same. Moreover, they change over time, their quantity is higher or lower, depending on the current political and economic doctrine and budgetary possibilities. In addition, the state can carry out its duties in different ways, traditionally or with the participation of private entities. For this reason, determining the actual level of state activity in a given period of time remains a current and complex task. Evaluation of the scope and effectiveness of the tasks carried out is equally important, although not easy.

The scope of state action

The author proposes to consider the issue of the state's obligations towards society in two ways, in theoretical and practical terms (Table 1).

Table 1. Duties of the state in theoretical and practical terms

Item	Theoretical terms	Practical terms
Scope of duties	Tasks that should be the state's duty	Tasks that state carries out in reality

Source: own elaboration.

Tasks presented in theoretical terms are in fact a peculiar programme of state action. A practical approach is helpful in determining the real scale (and areas) of activity. The activity is actually carried out, as it is usually a limited version of the „list” of projects planned to be implemented in a given period, most often due to budgetary constraints. The history of statehood teaches that in both cases the list of tasks changes over time¹.

In order to determine what should be the duties of the state (theoretical approach), it might be helpful to look at the content of Table 2, which proposes the division of state responsibilities according to the criterion of indispensability for the efficient functioning of the state and the welfare of society.

Table 2. Areas of state activity according to the criterion of indispensability for the efficient functioning of the state and the welfare of society

Tasks category	Tasks scope	Public perception of state intervention	
		Controversy level	Acceptability
Necessary	Creation and protection of the legal system and institutional system	no	high
Necessary to some extent	Supply of public goods	differentiated	differentiated
Undesirable	Supply of private goods	Rather high	Rather low

Source: own elaboration.

The „necessary” tasks presented in Table 2 are limited to those forms of state activity (mainly administrative), which the state institution cannot function without. As a rule, these activities are accepted by the society. The other two categories – tasks „necessary to some extent” and tasks „undesirable” – are related to the role of the state as a provider of goods. Supply of public goods by the state is natural to a certain extent and does not arouse much

¹ This has already been pointed out by A. Smith in his analysis of state expenditure (Smith 1952, p. 399, 423, 441).

controversy. However, public administration activities carried out on too large a scale cause a conflict between the preferences of individual consumers and the preferences of the society. The greater the extent of collective consumption, the greater the conflict between the interests of the individual and society. The level of acceptance of state preferences in relation to the consumption of public goods is therefore differentiated and depends on the social position and material situation of individual members of society. It is the least acceptable for the state to act as an entrepreneur, producer and provider of goods serving the individual consumption needs of the society, i.e. engaging in the provision of private goods, and thus constituting undesirable competition for private entrepreneurs (Owsiak 2005, pp. 29-32).

Social discontent caused by unwanted consumption of goods supplied by the state will be smaller, if the rulers will concentrate more their efforts on least controversial activities².

Looking for an optimal form of state activity, one can refer to the achievements of science. Such an appeal reminds us of the unequal approach to the role of the state in the economy and its duties towards society for the representatives of particular currents in the economy. Thus, science turns out to be useless in an unequivocal determination of what, on what scale and in what way the state should engage in order for social benefits to be as large as possible, but it may serve to explain the richness of etatyzm varieties that occur in economic practice – in each period of the state's functioning, its duties are determined in accordance with the doctrine of those currently in power and the social and economic policy being implemented, shaped under the influence of the „prevailing” doctrine. Hence there is a variety of state preferences in terms of consumption, observed in practice in time and space.

As already mentioned, some of the tasks to be carried out (theoretical approach), often presented in the form of various types of government programmes of a pro-development or pro-social nature, can often not be carried out, for example due to lack of funds. The scope of tasks actually performed by the state (practical approach) becomes then limited in relation to the intentions.

Mode of assessing the state's activity - proposal

The activity of the state is not an end in itself, but it is intended to bring specific, maximum benefits to the society. For this reason, it is particularly important to assess the effects achieved.

The author hereby proposes the following three-stage evaluation procedure:

² Stanisław Owsiak writes about the dangers of excessive forced consumption in (Owsiak 2005, p. 29).

1. The first stage, consisting in carrying out a specific type of „census by nature” of the tasks performed by the state, in order to determine the actual scope of responsibilities, and thus - how much state there is in the state³;
2. The second stage, in which, on the basis of the results of the first stage, the „matching” of the state's activity to the needs and expectations of society is verified, helping to decide whether the involvement of the authorities is appropriate, thus – whether the state in the state is as much as necessary, or too little or too much;
3. The third stage, the essence of which is to examine whether the state performs its duties in an effective manner, appropriately beneficial in terms of the social aspect, and at the same time minimizing the risks (Table 3).

Table 3. Mode of assessing the state's activity

Assessment stage	Main activities carried out as part of the evaluation	The basic purpose of the assessment
First	Developing a list of tasks actually performed by the state.	Determining the scale of the state's activity - how much is the state in the state.
Second	Examination of the compliance of the scope of tasks performed by the state with the needs and social expectations as to the number of implemented projects and their type.	Determining whether the content state in the state is: not enough, as much as it takes, too much; if what the state deals with is needed in a social sense.
Third	Study of tasks performed by the state in terms of effectiveness.	Determining whether the tasks performed provide the public with appropriate benefits and at the same time reduce the risk of various threats.

Source: own elaboration.

The first stage of evaluation seems to be relatively simple due to the available measurement tools. In particular, one can use experience of Adam Smith, who analysed the duties of the „ruler or state” from the point of view of expenses incurred (Smith 1954, pp. 399-571). The use of the „Smith's method” gives a clear, relatively reliable picture of the state's activity, both in terms of scale and type, which is illustrated by the amounts spent and their intended use. So it is not surprising, that Smith's behaviour has found many followers and to this day remains the commonly used method of choice. However, in order to achieve a more complete image of what the state does, it is necessary to take into account the private funds from which the tasks belonging to the duties of the authorities are financed/co-financed. In the era of more and more public tasks with the participation of private entities, this area of state functioning cannot be omitted when determining how much state there is in the state.

³ The author justifies the use of the term „how much there is state in the state”, a kind of an abbreviation of thought, by its legible message, useful here, due to the limited volume of the article.

It should be pointed out that the presence of private partners is distorts the following dependence: greater public expenditure – greater scope of state influence, lower public expenditure – less state influence. Undertaking cooperation with private partners in many cases opens up opportunities for the public sector to operate on a larger scale, without the need to engage additional public funds, or even with a reduced spending of such funds (Table 4). Extension of the list of duties performed by the state, which is tantamount to an increased scope of tasks performed, which is not accompanied by an increase in public expenditure (at least in a certain period), takes place, e.g. as a result of construction and subsequent servicing by the private partner of the transport route, even if in the contractual period the facility remains private property.

Table 4. Public expenditure and scope of State intervention

Item	Options for performing public tasks				
	Traditional		In cooperation with private sector		
	I	II	III	IV	V
Public expenditure	Increased	Decreased	Increased	Decreased	Unchanged
Private sector support	No	No	Current	Current	Current
State intervention	Increased	Decreased	Increased	Increased	Increased

Source: own elaboration.

Table 4 shows that the implementation of public tasks in cooperation with private entities, opening up new areas of activity for public administration, does not have to be related to increased public funding.

State expenditure on financing activities is not the only available measure of its involvement. It can also be expressed in another way, e.g. by determining the share of GDP covered by redistribution or the share of public consumption in total consumption. According to the author, the choice of measurement tool should not have a significant impact on the results obtained. When skilfully and reliably applied, they should lead to a relatively objective picture of the state's activity.

Due to the weakness of the instruments, it is much more difficult to determine whether the degree of state interference, identified in the first stage of the assessment, can be considered appropriate, i.e. – by colloquialising (see footnote 3) – whether the state is in the state as much as necessary. Practice shows that formulating a reliable and unambiguous opinion in this respect is very troublesome, which, moreover, complicates the definition of the role of the state by those in power in the near and distant future. In order to decide whether the state's involvement is appropriate, its scale has to be compared with a reference value. The reference

point can be, for example, a more generally defined standard of public services, or more specifically – the universal availability of free basic medical care, a certain air purity throughout the country, or a limited percentage of people without work suffering social exclusion, and many, many others. Unfortunately, the results of the comparison will vary depending on the reference point⁴. Moreover, each of the reference values selected in the course of the assessment will apply only to a specific part of socio-economic phenomena. The life of the society is too complex, e.g. because of the diversity of needs and preferences of individual persons or social groups, to „cover” all its aspects with one measure, even rich in economic content (Deaton 2013, pp. 167-169). So, how to make a comparison in order to obtain a clear and reliable picture of the situation in relation to all spheres of life – is it too little state in the state, as much as necessary or too much – has become possible? Unfortunately, neither a reference to the achievements of economics nor to practice is helpful in finding a satisfactory solution. So we are left with conducting a research in parallel for individual areas of life, using the trial and error method, concentrating efforts on improving the logical key to the good tools, in order to optimise the results of evaluation and making appropriate decisions regarding the future activity of the state on their basis.

The third stage of evaluation is to examine whether the state, regardless of the degree of involvement, performs its tasks in an manner that is effective and adequate to the expenditures incurred, i.e. in a manner consistent with previous expectations, bringing the society defined, appropriately high benefits, through the implementation of social objectives formulated in various government plans, programmes or strategies.

The effectiveness of the activities carried out deserves a higher grade, the higher the degree of achievement of the objectives set, and thus – the greater satisfaction of the society with the results obtained.

Unfortunately, it is not common practice to study the social dimension of the effects of state expenditure. Individual entities and public institutions are checked primarily for their ability to spend the amounts allocated to them, which is often the only criterion for assessing their effective use. As a result, money is too often spent contrary to society's expectations,

⁴ For example, the problems of the Warsaw Stock Exchange, which were particularly well known in the second half of 2016, were explained by the excessive presence of state-owned entities among listed companies and government plans disclosed in relation to those owned by the state („too much state contained in the state”) – cf. e.g. www.money.pl of 23 September 2016 and www.rp.pl of 2 November 2016. On the other hand, the reason for the weakening of the IT and construction sectors observed in a similar period was the stagnation in tenders conducted by public offices and institutions („too little state contained in the state”) – cf. e.g. www.pb.pl of 17 October 2016 and www2.deloitte.com of 12 October 2016.

often simply wasted. „More” does not necessarily mean „better”⁵. However, spending public funds regardless of the real needs and expectations of the inhabitants, even though it does not serve to improve their quality of life, is a common practice⁶.

Selection of tasks to be performed

The author postulates the necessity to change this situation as soon as possible. Multifaceted evaluation of the effects of projects implemented by public administration, with particular emphasis on social benefits, carried out with the use of appropriate tools, should become a natural, indispensable element of state activity, enabling the identification of tasks most desirable for social reasons.

Measures assessed by society as necessary, additionally characterised by an appropriate level of effectiveness, should be treated by the state as a priority and implemented in the first place. On the other hand, the least desirable projects should be considered to be those that are not in line with the expectations of society and ineffective. Table 5 contains a proposal for a specific ranking of public tasks, which may be applied in the selection of projects positively perceived by the society, due to the type – what is necessary, scale – as much as is necessary, and the level of effectiveness, allowing for the improvement of the standard of living appropriate to the outlays incurred. Thanks to this, tasks with a sufficiently high level of social acceptance will have a significant share in the list of actual duties of the state.

Table 5. „Ranking” of public tasks

Item	State involvement		
	Too low	appropriate (as necessary ⁷)	Too high
Low effectiveness	3 ⁸	2	3
High effectiveness	2	1	2

Source: own elaboration.

⁵ Angus Deaton writes about the fact that spending more money does not guarantee better results, comparing life expectancy in the USA and in other countries (Deaton 2013, pp. 67-68).

⁶ The lack of interest in assessing the effectiveness of implemented projects is particularly evident in relation to aid measures. Despite the introduction of the obligation to carry out evaluation studies of EU projects, allowing, inter alia, to observe changes in the local environment caused by the intervention, the quantitative aspect of the use of funds remains the dominant evaluation criterion; see for example: (Godek 2008, <http://www.repozytorium.uni.wroc.pl/Content/37427/004.pdf>) (access: 10.12.2016).

⁷ See table 3.

⁸ Place In ranking.

Summary

Active participation of the state in the life of society is necessary due to the unreliability of the market mechanism. Budgetary limitations result in the fact that not all socially desirable activities can be carried out, and all needs can be fully satisfied. The level of acceptance of tasks by the society performed in reality by the state is diverse, often low, which to a large extent is caused by the implementation of undertakings which meet the expectations and needs of the population to a too small extent. The use of funds for the financing of projects with a negative social perception makes it impossible or postpones the performance of expected tasks. As a consequence, the costs incurred by the state cannot be considered as effective, as they do not lead to sufficiently high benefits for the society. Maintaining such a state of affairs is not in the interest of the state. As it seems, improvement in this respect can be achieved, among others, through:

1. introduction of an efficient mechanism of evaluation of state actions in terms of scale, legitimacy and effectiveness, enabling identification of the „best” projects, i.e. those with the highest potential for social benefits;
2. use of evaluation results in shaping the economic policy of future periods, including, in particular, taking into account in the plans, and then implementation, first of all, of „best” projects;
3. increasing the scope of activities carried out by the state with the participation of private entities and then the following items could be possible:
 - increasing the number of performed public tasks,
 - increasing their effectiveness,
 - using the effect of a specific pushing-out (release) of public funds by private capital to finance other needs.

According to the author, the implementation of the proposed mode of evaluation and selection of public tasks to be performed will contribute to increasing the effectiveness of the government in terms of measures supporting the growth of prosperity and, thus, improving their public perception.

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