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LOCAL GOVERNMENT IN THE LOCAL ECONOMY

SAMORZĄD TERYTORIALNY W GOSPODARCE LOKALNEJ

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Summary: Today, local government must not only create the appropriate conditions and climate for the implementation of the tasks imposed on it, but must also be an economic entity actively participating in managing the local economy. In light of analyses of the average local government's scope of activities, it is clear that there is an increasing lack of complementarity in strategic decisions, and growing disparities or errors of local authorities, which become barriers to local development. This fact often leads to economic and social stagnation. Frequently the effectiveness of local government structures does not go hand in hand with economic rationality, which attracts social criticism. Under these conditions, the role of local government should change in local economy management with a focus on, among others, creative capital, whose task will be to expand the impact of the local economy on other areas. In addition, local government makes the local development policy more flexible, in particular the social policy towards strengthening local communities.

Keywords: local government, local economy, local development, local development policy.

Streszczenie: Samorząd terytorialny musi aktualnie nie tylko stwarzać odpowiednie warunki do wykonywania nałożonych na niego zadań, ale także być podmiotem gospodarczym aktywnie uczestniczącym w zarządzaniu lokalną gospodarką. Z analiz zakresu działań przeciętnego samorządu wynika brak komplementarności w decyzjach strategicznych między poszczególnymi jednostkami (gminami, po-

wiatmi, województwami), a także zwiększające się dysproporcje w poziomie dochodów obywateli lub błędy władz lokalnych, które stają się barierami w rozwoju lokalnym. Często prowadzi to do stagnacji gospodarczej i społecznej. Niejednokrotnie skuteczność struktur samorządowych nie idzie w parze z racjonalnością gospodarczą, co wywołuje krytykę społeczną. W tych warunkach rola samorządu w zarządzaniu lokalną gospodarką powinna się zmienić — powinna ona uwzględniać m.in. kapitał kreatywny, którego zadaniem będzie zwiększenie wpływu lokalnej gospodarki na inne obszary. Ponadto samorządy powinny prowadzić elastyczną lokalną politykę rozwoju, głównie politykę społeczną, w celu wzmocnienia lokalnych społeczności.

Słowa kluczowe: samorząd lokalny, gospodarka lokalna, rozwój lokalny, polityka rozwoju lokalnego.

1. Introduction

The advancement of economic processes in Poland fully justifies the need for a closer analysis of the role and importance of local government in the local economy. Being aware of the current conditions in which local government operates, it is interesting whether this entity creates new development opportunities and how it overcomes the constant barriers that often appear unexpectedly in economic, social and political reality. It should be emphasized that all activities and possible changes in the activities of local government often take place in seemingly opposite directions, because on the one hand one is dealing with globalization, and on the other hand with localism. The former creates new development opportunities for societies, while also causing concern. The second direction aims to build its own homeland, civil society and is a kind of defence against predatory, and often called pathological in economic terms, globalization. The consequence of this is often a re-evaluation of the economic order not only of the country's economy but above all of regions and micro-regions, in which the most important entity is local government. This means that local governments must function in a constantly changing contemporary social, economic and political reality. Thus they must quickly adapt to new conditions, change their operating styles as well as become more dynamic innovative enterprises in managing the public affairs for which they were established. This is due to the fact that in the management process in local government, the main role is played by public authorities, the decision-making centre performing specific regulatory functions in economic activity [Wojciechowski 2003, p. 19]. In exercising public authority, they are ultimately responsible for the conduct of management processes on a local scale.

The aim of the article is to show local government in the local economy as a creator of local development. To achieve this goal, a method based on critical literature studies and a descriptive method are used.

2. Local economy and elements of its development

In the literature on the subject, one can come across a diverse understanding of the local economy. However, it should be pointed out at the outset that it has two basic components: exogenous and endogenous [Adamowicz (ed.) 2003, p. 13]. The first is all outward-oriented activity for supra-local demand. It decides about the role of a given local unit in a larger territorial system and defines its leading functions in development. The second includes all elements related to meeting the needs of local people.

Usually, the local economy is defined as the activities of various local institutions aimed at creating new jobs by using local development factors. The basic ones are population, environmental resources and capital. Both institutions and other entities, each of which performs specific functions and strives to pursue its own – often particular interests – form a system of the local economy.

According to R. Brol, the local economy is a set of entities managing within the commune, between which there are various connections and interdependencies, resulting from both their cooperation, exchange of goods and services, provision of work, competition, etc. [Brol 1996, p. 121].

One can view the local economy as a complex process in which the central authorities, using their own resources, including population and the involvement of external partners, stimulate the economic development of a given territorial unit [Blakely 1989].

In simple and general terms, activities for the development of the local unit, i.e. the local, territorial social system, can be considered as the local economy [Wojtasiewicz 1990, pp. 37-48]. In the strict and narrow sense, the local economy is considered to be socio-economic activities that use local factors and development restrictions [Broszkiewicz 1990, pp. 49-58].

As with every management process, it is subject to various regulations, in the case of the local economy the given local government has a significant impact on this process.

By a properly understood local self-government economy the authors mean the decision-making by the inhabitants of a given territory, through selected authorities, within the scope specified by statutes, observing the principle of territorial self-government and sustainable development, in order to permanently improve the quality of life and concerning the management of economic, human and natural resources based on the action program. The functioning of the local economy is distinguished and characterized by five of its basic riches, these are resources [Pretty 1999, p. 11]:

- natural – natural resources and services,
- social capital – coherent community and interpersonal relationships,
- human capital – the situation and status of individual members of the community,
- physical capital – local infrastructure, land,

- financial capital – local community own resources, social benefits, loans and external finances – subsidies, subsidies, etc.

The appropriate policy and implementation of relevant institutional processes and activities allow the use of these resources. This has led to two ways of functioning of the economy at the local level:

- an unsustainable economy, treating capital on an income basis, this way of conducting the economy is conducive to the outflow of capital;
- a sustainable economy, in which the accumulation of basic wealth occurs, such a policy does not exclude external contacts, but it is characterized by a concern for the best possible use of its resources.

The local economy operates in two basic dimensions: the private sector and the budgetary sphere. The first covers the sphere of manufacturing, processing, trade and services. The budgetary sphere consists mainly of units performing own tasks and commissioned to the commune, among which administration, health care, education, cultural institutions, and municipal units. Local government authorities play a special role in the local economy system. The commune authorities are a kind of subsystem controlling the development of the local socio-economic system. This subsystem is equipped with various possibilities for the organizational and economic operation on the listed entities of the local economy. Confirmation of such a position can be, among others the fact that progressing globalization places the municipality as an important entity supporting entrepreneurs in the competitive struggle between micro-regions and regions for the location of capital.

3. Local government – its place and role in the local economy

Economic growth induces the increasing participation of the state and its entities in shaping the foundations for the development of society. These entities include, above all, local government, which in a sense is to counteract market imperfections. This is justified because the role and importance of public authority in the area of satisfying the needs of society by providing goods and services must increase.

Local government is a decentralized form of public administration, which is the basic institution that guides local development. Its role results from the public tasks imposed on a given entity (e.g. a commune) in the scope of shaping the local environment, socio-economic life, and solving problems of local communities [Sikora 2001, p. 85].

From 1 January 1999, a three-tier local government structure has been in force in Poland, namely:

- commune self-government,
- poviats self-government,
- voivodeship self-government.

The functioning of local government in Poland is regulated by the following legal acts:

- act on commune self-government,
- act on powiat self-government,
- act on voivodeship self-government.

Economic sciences argue the need for local government from the point of its allocation, distribution, stabilization and regulatory functions. Local government, which is a component of state institutions, is to face the failures of the free market and meet the needs of residents.

From a political perspective, local government is an instrument for exercising political power and strengthening this power. The domain of political science is the system of power. The local political system can be understood as the process of making decisions that decide and generate social conflicts arising from the distribution of goods and values which are socially desirable and at the same time at a deficit [Ferens, Macek 2000, p. 130].

Local government in terms of sociology is considered through the lens of the community. Generally speaking, a community is a group of citizens connected by some common interest flowing from the community of residence. Very often, however, the term “local community” is used interchangeably with the term community. The division into community, (commune, community) and collectivity (society) influences the nature of exercising local authority, articulating the interests of residents, and the organization and management of local rights. There are also tasks that for local communities are more desirable than for communes, and they are characterized by greater openness and sensitivity to other than local references.

Local government is an element directly affecting the entities of the local economy. Its basic role is to ensure a situation in which the harmonized and systematic actions of economic entities will aim to create new and improve existing utility values of the commune, create conditions for the local economy and ensure spatial and ecological order. “This role is consistent with the theory of the place of the state in the market economy, according to which, in order to ensure sustainable development, local government has to, inter alia, balance opposing social and individual interests by regulating the structure of the common good and economic freedom” [Dziekański, Pawlik 2011, p. 40].

It is obvious that local government induces the behavior of other entities, however, referring to these activities, e.g. to manage the local economy, and it can be said that they are not easy tasks. There are many factors that probably have an impact on this state of affairs, but it seems that the most recent have global problems, where globalization itself should be considered as an irreversible and inevitable process.

Thus, local government units indirectly control economic processes on the one hand, and take specific actions in the sphere of wealth and resource management on the other. These activities are oriented at the creation and development of

infrastructure, institutional and organizational support, and the elimination of barriers to the development of entrepreneurship. In particular, local government undertakes activities consisting in [Dziekański, Pawlik 2011, p. 40]:

- coordination of business entities activities,
- resolving contradictions and conflicts that may arise between various economic, social and civic entities and may be of a different nature and intensity,
- initiating economic undertakings beneficial from the point of view of harmonization of development,
- initiating cooperation between entrepreneurs, business environment institutions or consumer organizations,
- creating favorable conditions for the creation and development of enterprises based in a given area of operation of a local government unit.

As one can see, local government activity can take many forms. As a rule, they focus on supporting the private sector, the efficient use of local resources, the creation of new jobs and the effective management of public revenues. However, a classic set of orders related to the activation of market mechanisms related to the local economy such as facilitating business operations or the demonopolization of local monopolies, is already a set of activities that have become widespread and self-evident in Poland over time. Today's local development policy and, above all, economic policy, must re-evaluate its functions to strengthen local communities. From a practical point of view, this policy is extremely difficult because on the one hand it seems that the activities of local government are obvious and very popular, on the other, their identification is difficult, especially when the responsibility for the decisions made is blurred.

Local financial policy is one of the most important elements of local development policy. It is directly related to the financial and monetary policy of the state. Based on the assumption that there are strong connections between monetary policy and fiscal policy and the activities of local government units, channels for the transmission of monetary and fiscal decisions can be identified. In the most general terms, monetary policy affects the financial situation of local authorities through the following channels [Owsiak 2009, p. 10]:

- income – by regulating the growth rate of public revenues and real value,
- expenditure – by giving them real value,
- liquidity – by regulating the money supply, which determines the ability of entities to pay tax liabilities (central taxes and local taxes), and the ability to pay liabilities for services produced by local government units,
- loans – by regulating the price of loans for both current (payment) and investment needs,
- exchange rate – by shaping the price of foreign currencies needed by local government units to settle various liabilities, mainly related to the purchase of investment goods.

The impact of fiscal policy on the situation of local government depends mainly on:

- the country's tax system,
- the distribution of public tasks between central and local government levels,
- the system of supplying local government units,
- the scope of freedom of taking loans and credits,
- the current government policy regarding the granting of subsidies and loans from the state budget.

In local cross-sections, financial policy translates significantly into the quality of services provided by local government. The increase in operating costs resulting, for example, from the increase in the price of factors of production, usually results in an increase in prices in the local economy. The prices of municipal services are rising.

The income of local government budgets is particularly at risk in the era of adversely changing macroeconomic (global) conditions, in which all kinds of crises will be felt by large, well-developing cities and their local governments, and even those smaller, and in addition by the locations peripheral location in relation to e.g. agglomeration cities. Under such conditions, the way in which income policy is shaped can be decisive. It is worth emphasizing here that large cities base their policy on a high share of property income, while small ones are based on tax revenues, and subsidies. The absorption of EU funds thus becomes the basis for shaping income policy in small towns, as it is very often the only way to conduct an effective budgetary economy.

How very true were the views (forecasts) of L. Patrzalek, who in 2009 stated that "local government units will report ever greater demand for loan money. This demand will result not only from formal requirements related to the co-financing of EU projects, but also from current liquidity needs, from the need to finance budget deficits and to finance infrastructure investments. The above situation may lead to the accumulation of problems related to the dynamic increase in the indebtedness of local government units, because in our country the debt of the general government sector depends on the condition of the state budget" [Patrzalek 2009, p. 338]. This position should not have been and should not be underestimated in any way, because every local economy in conditions of economic weakness, manifested by less influence of state and local government revenues, has no positive forecasts for economic growth. The recent asymmetry between the revenues from personal and legal income tax, which are not offset by revenues from local and property taxes and fees, shows that the spiral of debt of local government units is just beginning, which to some extent justifies the thesis about the danger of local government finances. Of these, among others reasons,, municipalities currently do not develop evenly. One can also look for the reasons for such a state in the uneven availability of production factors or its different quality. However, it must be emphasized that there are various contradictions and conflicts between the goals of activities of all kinds of entities of

the local economy (administration, enterprises, and households). Even if one assumes that each of them strives to maximize their benefits – which can be considered consistent with reality – it is difficult to expect that the sum of these individual aspirations would maximize the benefits of the entire local economy. “This is due to differences in the methods achieved by combined economic activities, even despite the use of consensus appearances” [Łuczyszyn 2008, p. 122]. Maximum application can be achieved at the expense of strategies for other results in competition tests, monopolistic practices, minimizing tax burdens, unique environmental restrictions etc. [Suchocka-Krysiak 2007, p. 62].

However, most important is the potential inherent in people, their activity, entrepreneurship and creativity. This is invaluable in current conditions because development is not merely the result of administrative actions. An important problem facing local government in managing the local economy is the creation of conditions for the development of entrepreneurship, as already mentioned, because this problem in conditions of the changing Polish economy, continuous unemployment and mass migration is an issue that cannot be underestimated. This is especially reinforced by the fact that the development of most cities in Poland is not possible based only on the operation of the market mechanism, because it often does not take into account local conditions and the individual nature of the undertaken economic activity. Economic recovery without the intervention of the state, local government and other entities is often impossible [Szlaska, Kotlińska 2008, p. 94].

On the basis of the above considerations and, above all, economic conditions, it can be argued that in local conditions, management based on non-standard development factors, such as creative ones, is difficult and virtually unnoticeable. Frequently, in the system of local economies one is dealing with phenomena of a sociological, cultural, and ethnic nature, etc. “The combination of these phenomena leads to difficulties in identification, including substantive human capital, which is to stimulate the productivity of the local economy. There are difficulties with endogenous growth based on human capital” [Łuczyszyn 2011, p. 297]. This is all about its quality, which is undoubtedly conditioned by the solutions adopted in the education system. The process of its creation is the result of the links between the education system and economic development, which lead to various types of interdependencies and cumulative phenomena, resulting in spatial imbalances and increasing disparities.

When discussing the importance of local government in managing the local economy, one cannot ignore local authorities. Generally speaking, local authorities can be defined as the ability to make decisions regulating the satisfaction of the living and cultural needs of residents of a separate local community, as well as the possibility of arbitration in cases of conflicts of interest arising in the sphere of satisfying these needs. In other words, the scope of local authorities includes satisfying communal, living and cultural needs as well as regulations arising from conflicts of interest, and the scope is the general population of the local

community, separated by the geographical boundaries of the community and the community of the centre authorized to make decisions in these areas [Bauman 1967, p. 13]. However, it seems that there is a lack of trust in local authorities in local environments, which unfortunately is often not conducive to entrepreneurship. Frequently there are too rigid bonds and relationships, imbued with great distrust. This situation is not favorable, for example, to innovation. The lack of ability to cooperate on the authority-authority, authority-citizen line weakens this group of resources, and thus management.

There are often tendencies in the local economy to create individual attitudes, which gives a kind of isolation effect and leads to stagnation and even economic and social recession. Such attitudes are visible in small centres where one does not think about competitive advantage, nor strive to improve the quality of life, study and work. This means that social capital leads to stability that limits innovation and at the same time creates the hermeticity of society. It is not uncommon for a society to be closed not only naturally, but also by social capital. Strong bonds of local communities become barriers to the influx of new ideas and new residents, and consequently are not conducive to development.

4. Conclusion

Currently, in the era of rapidly developing theory and dynamics of local development, local government is expected to be the engine of this development. It should be noted that this no longer applies only to current needs but above all to creating and maintaining the development of the entire complex of functional values and productive forces of the entire local socio-economic space. This is due to, among others, the fact that in the current socio-economic realities, popularizing the position on all activities directed at the public interest seem to be less convincing for the local society, which expects concrete and transparent social policy, openness in management or creativity in satisfying various types of conflicts that create threats to local development. Development policy, as opposed to “pure” current policy, should not be directly involved in gaining and maintaining power, but rather on investing and carrying out the essence of structural change; this also requires a longer time horizon. Politicians at various levels of local government, as well as advisors and experts dealing with local and regional development strategy and policy, face a constant problem of how to combine various aspects of the functioning of spatial systems – settlement units, urban complexes, and regions of different spatial scale. The answer to this question is not easy, but personal factors should also be considered here. Non-standard approaches based on creativity can lead to success; it is creativity that is defined as a new form of knowledge-based economy. The modern feature of networking in the economy can provide an opportunity to combine two opposing elements that express this creativity and it can be implemented on a global scale, whilst remaining in strictly defined locations.

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