Communication and the financial decisions made by public authorities

Komunikowanie się a podejmowanie decyzji finansowych przez władzę publiczną

Streszczenie. Zasadniczym celem niniejszego artykułu jest ocena wpływu komunikowania się władzy publicznej ze społeczeństwem na podejmowane przez tą władzę decyzje o charakterze finansowym. Mówiąc o komunikacji społecznej, autorzy mają również na myśli rzetelne informowanie o procesach zarządzania środkami publicznymi, przez co realizowana jest znana w nauce finansów publicznych – zasada przejrzystości. Postawiony powyżej cel opracowania wynika z istotnego, naszym zdaniem, problemu: jakie skutki w sferze społeczno-politycznej (np. na podejmowane decyzje finansowe czy postawy obywatelskie) wywołuje takie a nie inne informowanie obywateli o procesach gromadzenia
i wydatkowania środków publicznych. Można bowiem postawić tezę, że obecnie w Polsce sposób przekazywania informacji w tym obszarze z punktu widzenia społecznego (adresata) jest niewłaściwy (niezrozumiały), przez co proces komunikowania się władzy publicznej ze społeczeństwem ulega istotnemu zniekształceniu.

Słowa kluczowe: komunikacja społeczna; przejrzystość; finanse publiczne; decyzje finansowe; postawy obywatelskie.

Abstract. The main purpose of this article is to assess an impact of communication between public authority and a society about financial decision-making by that authority. In this article authors consider “social communication” as a term referring to reliable information sharing about a process of public funds management. In that regard they see it as a mean of implementation of a principle of transparency, which is known in public finance science. The above mentioned purpose of the work is based on crucial problem: what are socio-political area effects (e.g. on financial decisions making or on an active citizenship) of providing various information to citizens about a process of collecting and spending public funds. Authors claim that currently in Poland methodology of delivering such information might be inappropriate (incomprehensible) from the social addressee’s perspective. This is due to the fact that it causes the process of public authority’s communicating with society is significantly distorted.

Keywords: social communication; material transparency; public finance; financial decisions; active citizenship.

1. Introduction

The main purpose of this article is an assessment of the impact of communication between public authorities and the society on financial decisions taken by such authorities. When speaking about social communication the authors also refer to the provision of reliable information regarding the processes of management of public funds, thus implementing the well-known principle in the science of public finances – the principle of transparency. The above formulated research objective results from what in our opinion constitutes an important problem that is contained in the following question: what are the socio-political effects (e.g. on the finan-
cial decisions and civic attitudes) of a particular method of informing citizens on the processes of collecting and spending of public funds? It seems that an observation of the existing communication practices between the authorities and the society allows the formulation of a thesis that the method currently applied in Poland in relation to providing information regarding the indicated area is improper (incomprehensible) from the social point of view (of the addressee), therefore the communication process between public authorities and the society is subject to a significant distortion. In pursuit of the said principle of transparency in public finances, public authorities are mainly focused on a more or less professional recipient – i.e. one with a certain base of knowledge of the discussed subject matter\(^1\). Nonetheless, its social aspect is noted in the doctrine\(^2\). While it is possible to speak of the existence of transparency in public finances as a certain theoretical assumption, from the point of view of a democratic model of functioning of a state and civil society it has become distorted.

According to the authors, the obligation of public authorities to communicate with the public (not only with regard to public finances and financial decisions that are made), stems from two main sources. First of all – from the Principal–Agent concept/ theory for the public sector\(^3\), in the light of which the principal is the public/citizens, and the agent – a public authority (politicians). Through the choice of politicians the principal (society) “commissions” them to implement specific public tasks (matters), which at the same time creates the need for permanent social control and assessment of how such an implementation is executed. The greater the intensification of the control, the more we may speak of a civil society. The basic requirement for its existence in democratic states

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1. C. Kosikowski, E. Ruśkowski (ed.), *Finanse publiczne i prawo finansowe*, Warsaw 2008, p. 301.
2. E. Kornberger-Sokolowska, *Budżety jednostek samorządu terytorialnego*, [in:] E. Ruśkowski (ed.), *System prawa finansowego. Prawo finansowe sektora finansów publicznych*, v. II, Warsaw 2010, p. 254; E. Malinowska-Misiąg, W. Misiąg, *Finanse publiczne w Polsce*, Warsaw 2007, pp. 46–47.
3. B.R. Weingast, M. Moran, *The Congressional-Bureaucratic System: A Principal-Agent Perspective*, “Public Choice” 1984, No. 44, pp. 147–192; T. Moe, *The New Economics of Organization*, “American Journal of Political Science” 1984, No. 28, pp. 739–777.
is/should be proper education (reliable information) on public affairs, including public finances. This condition is correlated with transparency (material disclosure), which means the presentation of information and data relevant for a given context in a way that is understandable and accessible to citizens.

Secondly, the implementation of tasks by public authorities representing interests of the society, which manifests itself in the allocation of public and social goods, is the subject of the theory of public choice. It essentially focuses on such issues as:
- whom in fact the decision-makers (public authorities) represent and in whose interest they perform their functions?
- what are the criteria used by the decision-makers (public authorities) in the management of public funds – by allocating public and social goods?

2. The determinants for the financial decisions made by public authorities.

The role of communication

It is a common phenomenon in modern states to analyse the decisions of a financial character/dimension (having significant financial implications) that are made by public authorities. They often evoke a lot of emotions, not only among scholars and experts or politicians themselves, but also among the citizens. Such types of decisions of public authorities which constitute an object of research of the aforementioned theory of public choice include inter alia:

- determination of the scope of state-guaranteed (state-financed) free health care benefits;

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4 In contrast, formal transparency means the presentation of data and information in any form, layout, etc. Although it guarantees the provision of information and data, it is often specialised or, de facto, simulated in character.
5 Cf. e.g. J.M. Buchanan, R.A. Musgrave, *Finanse publiczne a wybór publiczny. Dwie odmienne wizje państwa*, Warsaw 2005; J.E. Stiglitz, *Ekonomia sektora publicznego*, Warsaw 2004, p. 184 et seq.
6 S. Owsiak, *Finanse publiczne. Teoria i praktyka*, Warsaw 1999, p. 71.
the amounts and conditions of social benefits (e.g. reliefs, allowances, etc.), which are paid from public funds;
- establishment of the rules for the financing of citizens’ social security and setting the conditions (e.g. age, job seniority, loss of health, etc.) entitling them to receive a pension;
- modification of the tax system, including determination of tax rules in relation to the income of physical persons and enterprises.

The indicated types of decisions that are taken under specific conditions and within a particular time frame by public authorities are usually difficult to classify as clearly positive or negative. This is because different reference points (points of view) are used while performing their evaluation. And so, what is subject to assessment are the social consequences of decisions, as they influence the living standards (rights and obligations of residents and entrepreneurs) of a particular country. However, their impact (positive or negative) on the different categories of entities is varied. The next point of reference consists in the financial/budgetary capacity (usually present, but sometimes only the future capacity) of a given state. In this case, regardless of the calculations and predictions made by specialists, the effects of the decisions always deviate (in plus and/or minus) from projected intentions. As an example we may mention a reform of the US health care system (the Obamacare⁷), whose effects both on the current care system and the US budget are far from what was originally planned⁸.

Below we present a diagram of six key factors which in our view influence the financial decisions made by public authorities and thus create a specific environment in which management processes occur. However, what is more important is that between the different determinants we observe different kinds of relationships. One of them are the correlations

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⁷ The Patient Protection and Affordable Care Act signed by the President of the USA in 2010 and gradually implemented since October 1, 2013.
⁸ Kaiser Health Tracking Poll, December 2013, The Henry Keiser Family Foundation 2013, http://kff.org/health-reform/poll-finding/kaiser-health-tracking-poll-december-2013/; S. Cornwell, D. Morgan, Obamacare website gets new tech experts; oversight pressure grows, Reuters 2013, http://www.reuters.com/article/us-usa-healthcare-surge-idUSBRE99U16R20131031.
(two-way interactions) indicated in the figure, which have been recognised – next to the classes of factors themselves – as additional determinants for the decision making process.

Diagram. The determinants (environment) of the financial decision-making process of public authorities.

Of course such an approach requires clarification. Namely, the covariance indicated for all “pairs of factors” under specified conditions and in specific times in fact determines the area (framework) of potential decision-making activities. This means that although from an abstract viewpoint certain categories of factors may be considered either separately or in combination, in reality the decision-making is not determined by par-
ticular classes of factors but, de facto, by interrelations occurring between them. Each of them has a different significance for creating particular conditions for decisions, namely – to put it synthetically:

1) the relationship: tasks/political will of the governing – resources imposes on the governing (administrators) the requirement to define priority spendings and provide their rationalisation (in various forms), as well as forces them to intensify the activities aimed at increasing the financial potential (inter alia, in the form of obtaining other sources of income). On the other hand, it is the financial resources that may limit both the scope of tasks and the possibility of their implementation despite previous declarations made by politicians (political will), e.g. during an election campaign;

2) the relationship: potential management methods and techniques – legal regulations of financial management in turn determine the variants of possible actions and decisions under given conditions and within a specific time frame within the scope of the implemented financial management and its directions. The developed models may still lead to an improvement of the quality of management, although their utilisation is not always possible due to effective regulations setting the framework for management behaviours;

3) the relationship: civic attitudes – knowledge and opinions of citizens on the decisions made by public authorities is what finally defines (in a restrictive way) the framework for decision-making by public authorities and the responsibility for it. This relationship can be considered in view of several aspects. However, with regard to the subject of our deliberations, it is essential to state that although the governing should take into account the preferences/attitudes of citizens (voters),

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9 As a side note it should be added that it is a universal principle that public administration bodies operate solely on the grounds of and within the limits of the law. This, in turn, means that the principle recognised by a non-public sector that what is not allowed is prohibited does not apply here.

10 Management decisions may be considered, among other things, with the use of the theory of transaction costs, agency, and the seemingly most accentuated theory of public choice. Cf. J.E. Stiglitz, *Ekonomia...*, p. 184; J.M. Buchanan, R.A. Musgrave, *Finanse publiczne a wybór*, pp. 55–124, 163.
they should at the same time maintain real communication with them in the course of the decision-making process. This is, among other things, the condition for the social acceptance of the implemented financial policy.

In spite of the above distinction of particular relationships occurring between the mentioned elements (pairs of factors), they all form a kind of a closed and repetitive cycle, which makes up the process of taking of financial decisions by public authorities. Hence, the presented diagram includes a dashed circle with an indication of movement in the clockwise direction. Nonetheless, the repeatability of cycles does not mean that they are identical, as each pair of factors resulting from the previous decision-making process may be subject to modification, which also means that consecutive financial decisions will be different. This is evident given the volatility of the political choices of citizens and the variability of financial policies.

It should moreover be noted that the cycle itself begins with certain civic attitudes, in particular an involvement of citizens in the elections of their representatives as the potential future governing, forming public authorities. The latter usually perform an analysis/evaluation of financial decisions primarily through the prism of the capacity to shape and exploit financial potential for the implementation of an ever-increasing scope of public tasks (the relationship: tasks/political will of the governing – resources). This is obvious since the financial resources in combination with an efficient and effective system of management and legal regulations (the relationship: potential management methods and techniques – legal regulations of financial management) is what first of all determines the feasibility of achieving the assumed objectives. However, in the next part of the article we are going to focus on issues related to the communication of public authorities with citizens (and in particular the transparency of communication). This is not an issue that has so far been paid due attention in research conducted in the area of public finances. In our opinion,

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11 Representatives of science (being in a way “in favour” of legal regulations in this area) focused on an analysis of formal/legal principles of transparency of public finances – see sec. 4 of the article.
however, this is an essential element of the functioning of a contemporary (modern) democratic society, involving a continuous formation (and changes) of civic attitudes. Indeed, they should have an influence both on the assessment of activities of public authorities and on motivating them to take specific actions.

3. The flow of information between public authorities and citizens (transparency of intentions and actions) – the justification, role, distorting factors

As is clear from the findings of investigations carried out, a proper flow of information is crucial for shaping appropriate civic attitudes in given conditions and time. This means that public authorities should really (and not only seemingly) communicate with the public, as only then will we be able to speak of a real development of civic attitudes (including their corrections, changes) and an existence of a civil society, and a moderately conscious (based on knowledge and opinions) impact of the society on public authorities (politicians). In other words, the information provided by public authorities on intentions, their planned effects, and the current and future results (including financial ones) of the actions taken should be transparent, i.e. understandable (more on the principle of transparency is written in sec. 4). Unfortunately, in practice this is not the case as, for various reasons, public authorities (politicians) are insufficiently or not at all determined to make decisions rationalising the state's financial economy.

In fact, the lack of providing reliable information to citizens is not limited only to financial matters. This is due to the distortion of information provided to citizens. Some of the causes of the said distortion are objective whilst other subjective. In concord with the mentioned theory of agency, the objective factors of an incomplete or non-transparent commu-

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12 This is more broadly discussed by: J.M. Buchanan, R.D. Tollison, *The Theory of Public Choice: Political Applications of Economics*, Ann Arbor: University of Michigan Press 1972.
Communication of information to citizens (the principal) include insufficient knowledge of the communicator on a given subject. "Non-transparency" is to be understood, *inter alia*, as a provision of a great deal of unstructured information in which the most important issues either do not appear at all, or – less often – “are lost” in the barrage of data. On the other hand, subjective causes are reduced to an intentional concealment of (failure to publish) certain information. It is mainly due to the fact that the provision of such information could lead to a negative evaluation of actions taken by authorities by citizens (voters), and consequently expose them to taking political responsibility before the voters (the principal).

Of course, it must be borne in mind that the incentives of representatives (authorities, politicians) will never be, nor can be, fully convergent with the interests of principals (the society). Regardless of this, the control over the actions of public authorities (politicians) is necessary and unquestioned. Moreover, the transparency of information and the shaping of civic knowledge in a way leads to the distribution of some of the power. In fact, the demonstrated relationships between an access to reliable information and civic attitudes also occur in the reversed direction (from top to bottom). The decisions of public authorities (politicians), including the financial ones, have an effect on the responsibility of politicians, the development of civic responsibility and the strengthening of civil society institutions.

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13 Such a situation may result either from a lack or distortion of information given to authorities at a lower management level or from a lack of sufficient knowledge of the authorities on the validity/importance of particular data (which are obviously varied).

14 F. Fukuyama, *Budowanie państwa. Władza i ład międzynarodowy w XXI wieku*, Poznań 2005, p. 69.

15 J.M. Salachna, M. Tyniewicki, *Moralność jako element podejmowania decyzji finansowych w sektorze publicznym*, „Prawo Budżetowe Państwa i Samorządu” 2016, No. 3(4), pp. 16–17, http://apcz.pl/czasopisma/index.php/PBPS/article/view/PBPS.2016.012/10388, DOI: http://dx.doi.org/10.12775/PBPS.2016.012.
4. The transparency of public finances as an element of social communication

The broad ranging principle of publicity of public finances, which encompasses the principle of transparency, is rooted in the doctrinal views as well as reflected in currently effective legal regulations in Poland. It is expressly stated in art. 33 sec. 1 of the Public Finance Act of 27 August 2009\textsuperscript{16}, whereas the manner of its implementation in the formal aspect understood as the obligation to publish certain data or ensure publicity of financial procedures results from art. 34–38c of the Act. What is important, publicity belongs among constitutionally protected values defined in art. 61 of the Polish Constitution\textsuperscript{17}.

In a broad context, transparency of public finances guarantees parliamentary and social control over the processes of collecting and spending of public funds\textsuperscript{18}. As is emphasised: “social pressure proves to be a stronger instrument than an in-depth internal control”\textsuperscript{19}. Therefore, such transparency ensures an effective functioning of a democratic lawful state of which civil society is part.

The mere fact of imposing publicity obligations on public authorities, i.e. the obligation of public disclosure of data on state finances and financial management, does not guarantee that it will effectively implement the transparency directive. In this context the concept of effectiveness should refer to reliable (clear) provision/presentation of data to different groups of addressees, i.e. what the principle of transparency entails (material disclosure). In Western science it is more common to encounter the concept of detail or specification\textsuperscript{20}.

Although the financial doctrine also emphasises the principle of transparency in addition to formal transparency, and highlights its social

\textsuperscript{16} Consolidated text JL of 2016, it. 1870 as amended.
\textsuperscript{17} Constitution of the Republic of Poland of 2 April 1997 (JL No. 78, it. 483 as amended, corr.: JL of 2001, No. 28, it. 319).
\textsuperscript{18} P.G. Gaudemet, J. Molinier, Finanse publiczne, Warsaw 2000, pp. 238–239; M. Weralski, Finanse publiczne i prawo finansowe, Warsaw 1984, pp. 65–71, 183–184.
\textsuperscript{19} E. Malinowska-Misiąg, W. Misiąg, Finanse publiczne..., pp. 46-47.
\textsuperscript{20} D. Strasser, The finances of Europe, Luxembourg 1992, p. 55; P.G. Gaudemet, J. Molinier, Finanse..., p. 238.
and control functions, we may have an impression of dealing rather with postulates than an analysis of its practical implementation. The legislator and the governing themselves seem to underestimate the social aspect of the principle of transparency. Moreover, much is left to be desired from education provided during courses devoted to public finances in law, economics or administration studies. It is essentially confined to an indication (which is also practised by representatives of the doctrines) of legal regulations defining the instruments for the implementation of this principle, including: 1) adequate detail in the division of public revenue and expenditure, 2) budgetary accounting, 3) proper reporting of operations carried out with the use of public funds. The issues related to the effectiveness (clarity) of published data remain outside the area of interest.

As a consequence, the principle of transparency is realised from the point of view of professional recipients, i.e. those who have specific knowledge of public finance issues, which (at least hypothetically) makes it possible for them to understand published information and data. Although it is noteworthy that given the manner of presentation of data even professional recipients may have problems with an actual identification and assessment of the state of finances of the country or the financial policies implemented by the governing.

The fact of employment of such and not other method of communication causes that a social addressee with a varying level of education and knowledge, who, after all, is required to bear certain public burdens, is somewhat deprived of an access (substantive, material) to public information, and thus the aforementioned social control becomes significantly reduced. Therefore, paradoxically, it turns out that although the social addressee has an access to a variety of information and public finance data, in many respects they remain incomprehensible to them. It is worth noting that among the group of social addressees there are also non-governmental organisations interested in acquiring public funds for their activities, which may much more effectively carry out the function of control over a public authority than the individual.

From the point of view of interests of a citizen who lacks professional knowledge on the processes of managing of public funds, we may point
to several barriers to an effective social communication in the sense of providing information on public finances, although some of them may be objective in character. These are primarily:

- concentration and magnitude of the published data (very detailed) without taking into account the degree of their selection from the point of view of the addressee;
- non-transparent manner of presentation of data, which makes it difficult to obtain information, e.g. on global funding amounts for key state-implemented projects (programmes);
- utilisation of non-uniform terms when publishing the same statistical data, e.g. public debt – State debt, domestic public debt – general government debt.

5. Major barriers to the desired communication between the public authorities and the society (conclusions)

In conclusion, it should be pointed out that one of the key barriers to the desired communication between the public authorities and the public in the field of management of public funds is the extremely complex nature of this subject matter. In this context, it should not be surprising that the principle of transparency of public finances is implemented first and foremost for a professional recipient. One may even argue that it is “easier” for public authorities to inform this type of a recipient, e.g. by presenting sets of numerical data, since it does not require the effort of explaining public finance management processes that have an economic, managerial or legal dimension. On a side note, as we have already pointed out, at times even professionals have problems with proper interpretation of the published financial data.

This principle should take into account the social aspect of control over the management of public finances, which originally constituted its element in the theoretical dimension. It seems that the prerequisite for its effective implementation from the point of view of interests of a citizen is
the postulate of maintaining adequacy. This means that the transfer of information should be realised according to (with consideration of) the recipient’s education in order to be understandable for them. This, in turn, involves the need to maintain an adequate scope and level of detail of information. Bearing in mind these findings, it is evident that there is a need (requirement) for financial education at various schooling levels as well as for education provided by social organisations. It should also be pointed out that the determinants of reliability (clarity) of the communication process with the society should be seen in specified moral values\textsuperscript{21}.

The second essential communication barrier is of political character. It stems from the reluctance of the public authority, which is the direct administrator of public funds and which derives specific benefits from it. This barrier will occur especially in the case when decision makers make socially unpopular financial decisions, for instance, decisions limiting social advantages or increasing tax burdens. Paradoxically, however, the authority itself can be the beneficiary of proper implementation of the principle of transparency. Although the pressure of public awareness when it comes to the assessment of the way that public money is spent forces the authorities to justify (convince of undertaken) financial decisions, it also encourages the social acceptance of these decisions, and subsequently – the approval of the policy pursued and the continuity of power.

\textsuperscript{21} Due to the wide scope of this issue, the authors only signalled its existence. Cf. J.M. Salachna, M. Tyniewicki, \textit{The Principle of Substantial Transparency of Public Finance and the Creation of the Active Citizenship}, [in:] M. Radvan, J. Gliniecka, T. Sowiński, P. Mrkývka (eds.), \textit{The Financial Law Towards Challenges of the XXI Century (conference proceedings)}, “Acta Universitatis Brunensis. Iuridica Editio Scientia”, vol. 580, Brno 2017, pp. 81–83, http://hdl.handle.net/11320/5794; https://is.muni.cz/publication/1378725.
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