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**CHOOSING A PROPER SCENARIO  
OF THE MONETARY DEVELOPMENT AND FINANCIAL  
INTEGRATION IN THE EURASEC**

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**Key words:** globalization, regional integration, Economic and Monetary Union, common currency, single currency.

**A b s t r a c t**

The article is devoted to the problem of choosing an effective scenario of monetary integration within the EurAsEC. A fundamentally new approach is that the Eurasian integration is considered to become an alternative to disintegrative tendencies of post-Soviet countries.

The advisability for a common currency and a system of supranational governance structure are given on the basis of the analysis of development of EurAsEC member states. The reasonability and timeliness of this event as a basis for further development of integration processes and sustainable development of EurAsEC is substantiated.

**WYBÓR SKUTECZNEGO SCENARIUSZA ROZWOJU INTEGRACJI WALUTOWEJ  
W EUROAZJATYCKIEJ WSPÓLNOCIE GOSPODARCZEJ**

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**Słowa kluczowe:** globalizacja, integracja regionalna, Unia Gospodarcza i Walutowa, jedna waluta, wspólna waluta.

**A b s t r a k t**

Artykuł jest poświęcony wyborowi skutecznego scenariusza integracji walutowej w Euroazjatyckiej Wspólnocie Gospodarczej. Nowym podejściem jest rozpatrywanie integracji euroazjatyckiej jako alternatywy dla tendencji dezintegracyjnej krajów postsowieckich.

Na podstawie analizy rozwoju krajów członkowskich Euroazjatyckiej Wspólnoty Gospodarczej wskazano dowody przemawiające na rzecz wprowadzenia wspólnej waluty i systemu zarządzania ponadnarodowego. Uzasadniono celowość i aktualność tej akcji jako podstawy do dalszego rozwoju procesów integracyjnych i trwałego rozwoju Euroazjatyckiej Wspólnoty Gospodarczej.

**Abbreviations**

BRICS – a group of five fast developing countries: Brazil, Russia, India, China, South Africa,  
CIS – Commonwealth of Independent States,  
EEC – European Economic Community,  
EFTA – European Free Trade Association,  
EMU – Economic and Monetary Union,  
EU – the European Union,  
EurAsEC – EurAsian Economic Community,  
IFRS – International Financial Reporting Standards,  
MERCOSUR – Common Market of the South American countries, economic and political agreement  
between Argentina, Brazil, Uruguay,  
NAFTA – North American Free Trade Agreement.

### **Stating the problem**

The creation process of monetary unions under the modern conditions and the regularities of their development in terms of cooperative integration is a subject for economists to review theoretical foundations of the role of monetary sphere as a motive power for economic integration. This situation is caused by the emergence of the Eurasian Economic Community (EEC), which consists of Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan (its membership is provisionally suspended).

Initially the EurAsEC was regarded as a new stage in economic integration among the CIS countries and as a result of strengthening of globalization processes due to the fact some CIS members hold a significant share of world reserves of strategic raw materials, hydrocarbons and uranium including.

We treat the integration processes within the EurAsEC as an interesting aspect for the scientific analysis because of their being an alternative to the disintegration tendencies going on in the former Soviet Union.

Unlike the European Union integration, resulted in the merge of states that have had a long history of own national currencies, the EurAsEC member states belonged until quite recently to the country of a common economic space and the unified currency. The integration cooperation and the associated introduction of the unified currency should be introduced by different rules and pursue other goals under market economy conditions opposed to the existed Soviet command system.

Therefore, the reinterpretation of the actual essence of integration processes in monetary sphere, and as well the choice of scenario, adequate to the needs of the EurAsEC countries is of an undoubted interest.

## **Results of the research**

The integration processes in the financial markets depend on the processes of the globalization, from one hand, and the increasing competition between individual states – from the other. The development of a new effective and modern requirement of the external environment model of financial interaction in post Soviet countries requires considering the following aspects: the history of monetary relations, possibility of foreign experience application and the effects of integration interaction implementation measures.

Most present-day analysts of post-Soviet integration rely mainly on the phased model by B. Balassa. This model implies a well-known stages of the going on integration processes (free trade area, customs union, common market, economic union, Economic and Monetary Union) (OBUHOVSKIJ 2007, p. 28). Yet another stage has been relatively recently included that precedes all other ones, that is the Preferential Trade Area zone (OBUHOVSKIJ 2007, p. 9).

This model has been successfully implemented within the European integration process, that is the world's largest economic and monetary union – the euro zone was created. But such a model was carried out by France and West Germany with the active participation of the United States, pursuing pure political goals, and the path of European integration itself reflects the realities of the Western Europe in the second half of the twentieth century. The attempts to replicate such a model in other regions of the planet, including African one, the former Soviet Union and in East Asia too, was not a success. Instead of a fading concept based on an integration of the „bottom-up process” there comes time when the driving motive for the formation of financial and monetary unification of the states could be identified like the „descending process” as a result of the growing interaction between business entities interested in creating an enabling institutional environment for their development (BALASHOV 2010, p. 38).

This suggests that the orientation exclusively on copying the foreign experience assumes, for the first, the complexity of implementation of separate elements due to the difference in initial conditions, and, for the second, preserving the role of „catching up” countries.

Moreover, the realities of asymmetric economy systems functioning do not fully meet the postulates of the classic theory. In the comparative analysis of the ways of transition to the single currency and the formation of a single currency area in Western Europe, conducted by professor S.L. TKACHENKO (2008) it is not the economic convergence to be considered as a basis of a payments union, but the fact of the necessity of leveling divergences (differences) in the economic sphere, by the establishment of a single currency at the same time.

One should note the scientific works of A. Liebman based on hierarchical cluster analysis – i.e. on considering the integration transformations as a „network” of negotiated agreements at different levels of „institutions”, both from the standpoint of their quantity and tendencies or spheres (politics, society), and with the standpoint of the quality changes that could and should occur after ratification (LIBMAN 2008, p. 21).

It is possible to mark the next advantages out of this approach:

1. The universality (no need for extrapolation of integration transformations of each specific union of the countries (EU, NAFTA, MERCOSUR, CIS, EurAsEC);

2. The accuracy (the opportunity to get more precise evaluation of the level and power of the integration, to accurate approach to determining the current stage of the integration processes);

3. preserving the uniqueness of the integrating countries (the possibility to accept the positive traits of other participants of the Union, avoiding an ultimate harmonization);

4. The assessment equivalence of all driving forces of integration (the ability to multivectoral analysis, the elimination of the need to analyze the integration conversion only as „bottom-up” or „top-down” ones).

However, despite the attractiveness, there are certain complexities of A. Liebman’s methods application for the Eurasian integration, which mainly consists of lack of the methodological elaboration basis and of the complexity of the data acquisition and processing too, in particular, of transferring quality subjective indicators (e.g. political components, a social base, ethnic dimensions) into the quantity ones.

We believe the development model of monetary and financial integration within the EurAsEC should be based on elaboration of a unique scenario which takes into account both the common Soviet past of the participating States, and contemporary problems of a sustainable economic development.

In this context, we suggest the scenario which describes the future, consisting of coordinated events and sequenced steps with a certain probability to lead to the predicted final state of the system. As a rule, scenarios are qualitative description containing certain quantitative estimates. Here there is a difference between models and predictions, most of which focus on the quantitative indicators only.

To develop an effective scenario of the monetary and financial integration in the EurAsEC O. Butorina’s concept (BUTORINA 2005) is of an undoubted interest.

The basis of this concept is fundamentally different from the usual definitions of a regional integration. So, the integration in general is been treated as an effective remedy for stimulating domestic development of the

region and for using benefits of globalization to restrict its negative impact at while.

The regional integration by O. Butorina is a „model of conscious and active participation of a group of countries in the world stratification processes caused by globalization” (BUTORINA 2005, p. 142). The principal distinctive feature of the above mentioned definition lies in the intensification of relations between participants, their economic and political systems merging is not a goal of a regional integration, but its instrument. Just the same concerns the formation of supranational governance institutes. The main goal of an integration is however to form *the most successful* global strata<sup>1</sup>. Moreover, the success is understood as strengthening the region’s position in the part of areas which are most important for the stage stratification or in the areas where the region has the most opportunities for this.

This concept allows us to step away from economic determinism postulates, removes off a controversial nature of an interaction between political and economic elements of an integration to transfer them into a parallel field of analysis.

So, the above mentioned definition of integration allows us to treat it both as a state and as a process. That is, there is no integration of initial and final stages; there is an *optimum condition*, i.e. the best model of existence in the modern world.

The success of processes of association evaluates the need of new approaches focused on a quality assessment. At the same time, the existing methods of evaluation of supranational interactions (as opposed to interstate ones) do not lose their relevance, and obtain additional integration characteristics.

Thus, the Eurasian monetary and financial integration, to our opinion, is not a final aim but means for achieving a sustainable economic development of the region.

The formation of Economic and Monetary Union of the EurAsEC countries is possible with implementing two alternative scenarios:

1. The payment Union with the dominant state at head (the unilateral monetary union) – providing the single currency;
2. The payment Union with the equal participation of several countries (the multilateral monetary union) providing – the common currency.

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<sup>1</sup> Under the stratum we mean the group of countries that do not have similar parameters of socio-economic status, but closely interrelated within the production cycle. I. Wallerstein proposed a theory of the world system, according to which rich countries are accepted for major nations, and countries surrounding it provide the first raw materials in exchange for finished products. According to the theory J. Galbraith countries remain at the bottom of the stratification structure due to traditions customs and ways of life.

## The Economic and Monetary Union with one state to dominate

Such a model is consistent with the basic provisions of the hegemonic stability theory. The Russian Federation expresses aspiration to create an economic and monetary union according to the model with a dominant state at the modern stage (PUTIN 2011). These intentions are first of all based on the fact that the economics of the states involved in the construction of the common economic space (the Republic of Belarus and the Republic of Kazakhstan) are significantly inferior to the Russian as to the majority of quantitative indicators (see Table 1). Alongside, the Republic of Belarus demonstrates a number of innovative directions on selected quality indicators adequate to the VI information mode of megaeconomics, and the Republic of Kazakhstan has the advantage of rare materials, which is important for the new economy. However, the real sector of the Russian economy is quite diversified and able to produce most kinds of products specific to the modern industrialized state. During the whole post-Soviet period the Russian Federation maintained a positive trade balance at the expense of energy exports, metals and fertilizers. The Russian Federation is the largest trading partner of most CIS states (MUHAMEDZHANOV 2010, p. 21), but substantially yields to China and a number of Western European countries in exports of innovation into the Republic of Belarus and the Republic of Kazakhstan.

Table 1

Economic indicators of – participant states of the EurAsEC in 2012

State/Indicator	Belarus	Kazakhstan	Russia	Kyrgyzstan	Tajikistan
GDP (bln. dollars)	63.0	202.7	2 014.8	6.5	7.6
Inflation [%]	21.8	6.0	6.6	7.5	6.4
Unemployment [%]	0.6	5.3	5.1	4.8	11.0
Current account balance [mln. dollars]	-1,819.3	6,154.0	71,432.0	-1,411.5	-247.6
Trade balance [mln. dollars]	497.5	43,148.0	192,296.0	-3,001.8	-991.1
Budget deficit [% of GDP]	0.5	-1.5	0.4	-6.6	1.5

Source: Statisticheskij sbornik „Tekushhee sostojanie jekonomiki i finansov gosudarstv-uchastnikov EvrAzJeS za 2012 god” (2014).

However, the presence of all these factors doesn't make inevitable the creation of the Economic and Monetary Union on this model. The negative effects of the Russian ruble introduction as a single currency within the Customs Union is the loss of the monetary, emission and economic independence of Belarus and Kazakhstan.

Furthermore, to S. Bahdankevich's opinion, the minus of the Russian ruble using as a single currency is stipulated by the fact that Russia is a completely raw orientated country and the Russian ruble rate is entirely dependent on raw materials prices, including energy utilities.

Among the negative effects of using the Russian ruble could also be mentioned the reduction of banking resources in the national currencies providing a capacity decrease of central banks to carry out their refinancing (ZHERNOSEK 2012).

Ultimately, the abandonment of the national currencies in favor of the Russian ruble actually means a loss of the capacity to regulate economic growth by monetary methods.

Creating the conditions under which the Economic and Monetary Union of the EurAsEC countries with one dominant state could be successful and sustainable, seems to us a more difficult task than a creation of a monetary union with equal participation of several states. The reason is that „dependent” members of the Economic and Monetary Union will feel that they would not be able to decisively influence on the content and progress of the integration process from the early stages of its construction. Several steps towards the integration would have a rather objective nature, but touch painfully the banking sector of the participating States. To our opinion, the further concentration among banking institutions of the uniting states, by mergers and bankruptcies including, will be inevitable in the development of integration processes after such a scenario.

As to experts, the optimal number of banks in the Republic of Belarus should be 5–7 (now approximate 30), since 85% of the total assets of the banking sector account for this number of banks (BALASHOV 2010, p. 86). Similar situation is in the Russian Federation, the Republic of Kazakhstan and the other CIS countries.

Thus, the scenario based on the introduction of a common currency (i.e., with the equal participation of all States) seems more real and viable within the contemporary post-Soviet space.

### **The Economic and Monetary Union with the equal participation of several states**

In the aforesaid context there are of some interest the criteria established for the admission of countries to the participation in the European EMU which can be evaluated as indicators of „financial health” and be accepted with certain assumptions as parameters of the monetary and financial integration. They are next:

1. The inflation level should not exceed the average level by more than 1.5% of the three EEC member countries with the lowest inflation;
2. The state debt should not exceed 60% of GDP;
3. The state deficit is to be less than 3% of GDP;
4. For at least two years the ranges of exchange rates should be observed provided with the exchange rate mechanism, without devaluing against the currency of other countries of the EEC;
5. Long-term interest rates should not exceed the average of more than 2% for three countries with the more low inflation;
6. The compliance of the limits of mutual exchange rates fixed in the EU ( $\pm 15\%$ ).

Table 2

The inflation rate in the EurAsEC countries, 2005–2012, in percentage

State	2005	2006	2007	2008	2009	2010	2011	2012
Belarus	7.9	6.6	12.1	13.3	10.1	9.9	108.7	21.8
Russia	10.9	9.0	11.9	13.3	8.8	8.8	6.1	6.6
Khazakhstan	7.6	8.4	18.8	9.5	6.2	7.8	7.4	6.0
Kyrgyzstan	4.9	5.1	20.1	20.1	-0.025	18.9	5.7	7.5
Tajikistan	7.1	12.5	19.8	11.9	5.0	9.8	9.3	6.4

Source: Belarus' i strany SNG. Godovye dannye (2014).

Table 3

The total public debt in the EurAsEC countries, 2005–2012, as a percentage of GDP

State	2005	2006	2007	2008	2009	2010	2011	2012
Belarus	8.0	13.0	18.0	22.0	35.0	42.0	50.0	38.0
Russia	14.0	9.0	9.0	8.0	11.0	12.0	12.0	11.0
Khazakhstan	8.0	7.0	6.0	7.0	10.0	11.0	11.0	12.0
Kyrgyzstan	86.0	72.0	57.0	48.0	58.0	60.0	52.0	55.0
Tajikistan	42.0	35.0	35.0	30.0	36.0	36.0	35.0	36.0

Source: Belarus' i strany SNG. Godovye dannye (2014).

Table 4

The budget deficit in the EurAsEC countries in 2011–2012, as a percentage of GDP

State	2011	2012
Belarus	1.7	-1.1
Russia	0.4	-0.1
Khazakhstan	-2.3	-2.5
Kyrgyzstan	-5.1	-7.8
Tajikistan	-0.6	-0.3

Source: Belarus' i strany SNG. Godovye dannye (2014).

The exchange rate systems of the EurAsEC countries are practically divided into two parts – one for the dollar and the euro, the other – for the rest currencies of the countries. In recent years, foreign exchange systems for the hard currency converged to a large degree, so as in most countries floating exchange rates are applied (with certain modifications). At the same time some countries (Belarus, Kazakhstan) use the „independent floating”, and the remaining countries use „managed floating” when central banks carry out the intervention for the rate regulation on the corresponding market. However, despite the fact the afore mentioned countries officially declared to the IMF the application of independent floating mechanism of their currencies, there is a cause to believe they and the central banks do interfere to a greater or lesser extent with the process of the rate formation in the domestic exchange markets.

It is worth of noting that according to the research by Russian scientists T.G. Tumarova and S.G. Kornilovich (TUMAROVA, KORNILOVICH 2007, p. 151) the high level of dollarization, common to all states of the EurAsEC, transmits the shocks of the external relations, destabilizing the national economies, foreign exchange and financial markets as well.

The analysis of empirical data which are presented in Tables 2, 3, 4 indicates that the European Union convergence criteria at the present stage can be applied fully at three countries – Belarus, Kazakhstan and Russia which form the core of the EurAsAC financial and monetary union. However, the economic and monetary union of these states can not be based entirely on the „European” convergence criteria due to a number of historically determined features of the post-Soviet countries.

In this connection, it seems appropriate to highlight alongside with economic convergence the additional parameters of monetary and financial integration, because this association is a system of asymmetric economics. A number of studies supports the idea that the construction of economic and monetary union on the basis of leveling the divergences, that is, the equal cooperation of states with asymmetrical economies, while taking a decision on critical development issues of the integration process, can ensure the project a long-term sustainability (KOZLOVSKIJ, CHAPLYGIN 2005, p. 106).

We can formulate for the EurAsEC countries the basic direction of a consensus of them in the formation of the Economic and Monetary Union. They are as follows:

- 1) to provide low inflation rates, comparable with large open economies of the Big twenty, which are not reentrants in the former Big Seven, experiencing a decline at present time;
- 2) real interest rates, with which the central banks impact on the financial system of the country or on the integration space;

3) free-floating exchange rates, the dynamics of which can be adjusted in course of objective market processes and by using standard tools.

The studies of the monetary integration perspectives in the format of a single economic space in Eastern Europe (Russia, Ukraine, Kazakhstan and Belarus) conducted in 2006 by a group of scientists from Russia, the U.S. and UK led them to conclusion that from the economic point of view, the realization of the Economic and Monetary Union project was premature due to „... lack of structural symmetry between their economies, asymmetric influence of external shocks, as well as the lack of ability to a flexible interaction of market institutions among potential partners” (CHAPLYGIN et al. 2006, p. 48). We do believe that an urgent task for the creation of conditions for the formation of the Economic and Monetary Union is to harmonize the economic policies of the EurAsEC with the view of the above mentioned aspects of the future consensus.

Considering the experience of the EU euro zone the positive mechanisms of the European Union should be used, namely:

1) the mechanism of equal representation of the States Participants in the legislative process;

2) the quota arrangement in senior positions of the supranational structures;

3) the rotation principle while changing officials;

4) the formation of the mechanism of transfers from the collective budget of the association.

Many of these elements showed their advantage in the Eastern Europe countries in the second half of the 20th century and are widely used nowadays in the management structure of the EU, Switzerland, Spain, USA, etc.

The hard barrier for the sustainable development of economies in the integrated space of the EurAsEC is a domination of external factors, especially during periods of the cyclical instability. The danger here is exogenetic, and as a consequence, the non regulativeness of external factors stabilizing the economic development. The fluctuations in the world state of the market (conjuncture) caused by them can quite quickly lead to upheavals that deplete the forming stability. During the period of rapid economic growth (2000–2007) in the EurAsEC member states a structural imbalance has accumulated into the bargain. They clearly showed up at the period of the escape from the crisis in 2009–2011. So, there appeared an obvious system gap between the demand for credit, brought by economies, and the ability of national financial institutions, especially of the non-state sector, to meet such a demand.

The level of mutual trade, which Western countries sought to achieve with the creation of the Customs Union (EEA) or the Free Trade Area (EFTA), the CIS countries inherited from the Soviet Union and subsequently increased it

step by step under circumstances of any formal agreements absence (TOCHICKAJA 2008, p. 17).

Until now the mechanisms of payments between the CIS states, in general, cope with the task of servicing two-way good trade. But they do not keep in line with the contemporary stage of integration of the states into megaeconomics, inside of which a developed integration infrastructure is formed.

The Russian Federation roubles displace other currencies, primarily the U.S. dollar and the euro in payment transactions with some CIS countries in the former Soviet economic space. Total volume of transactions using the Russian rubles in 2012 amounted to about 35 billion US dollars, i.e. 57.6% of the total payment turnover within the EurAsEC (Table 5).

Table 5  
The share (unit weight) of currencies in payment transactions the Russian rouble with the states – members of the Eurasian Economic Community in 2012, as a percentage

The EurAsEC states	RUB	USD	Euro
Belarus	57.6	30.8	10.9
Khazakhstan	52.1	43.6	2.0
Kyrgyzstan	27.1	71.7	1.0
Tajikistan	34.9	57.6	6.5

Source: own study based on data *O dinamike kursov nacional'nyh valjut stran Soobshhestva v uvjazke s prichinami ih izmenenija* (2014, p. 37).

The weak growth of megaeconomy in 2013 may adversely affect the sustainable development of the Member States of the Common Economic Space. The draft decision of the Supreme Eurasian Economic Council „On the main orientations of macroeconomic policy states – members of the Customs Union and the Common Economic Space in 2013–2014” (*Slabyj rost mirovoj jekonomiki v 2013 godu...* 2013) contains a such conclusion. One more negative factor in the Common Economic Space of the three countries is an offer to increase the supply of gas fuels to megaeconomy markets, as well as the development of new technologies for extracting shale gas and production of liquefied gas. The expert opinion states that „the fall in world prices for oil and natural gas will reduce the flow of money into the economy and decline of the corresponding income budgets” (Press-reliz Kruglyj stol „Regional'naja integracija – drajver rosta mirovoj jekonomiki” 2014). However, the financial reserves accumulated in the Republic of Kazakhstan, the Republic of Belarus and the Russian Federation will allow to mitigate somewhat the negative impact on the real economy of these countries caused by the fall in energy prices. To our opinion, only the full economic and monetary union would

neutralize the risk of macroeconomic instability of the states with a united economic and currency space.

Russia, Belarus and Kazakhstan will receive a significant increase in economic activity, equivalent to growth of their total GDP by 15 percent for the period 2011–2020 years as a result of the integration of national markets into a single Community market according to calculations of experts of the Institute of Economic Forecasting of the Russian Academy of Sciences for an integrated interindustry balance model (MJASNIKOVICH 2010, p. 60). The usefulness of the common currency and the interest in it depend directly on a number of market participants, which will use it to carry out various forms of economic activity. The growing liquidity of monetary market of the Republic of Belarus and its close ties with the economy of China leads to a reduction in spreads on exchange, what lets to make less costly calculations and bargains.

The necessity of the creation of the payment system of BRICS countries as an alternative to the existing global one, and the formation of a payment union within the EurAsEC are caused by the unreliability of the Jamaican currency system. The volume of U.S. dollars in cash and non-cash circulation has a backing of gold reserves less than 3%. Similar parameter for the Japanese yen is 5%, and for the Chinese yuan – 27% (MESHHERJAKOVA 2010). At the same time the backing up norm of the Russian rubles makes 84%, mutual settlements with the CIS countries and inventory assets, providing equilibrium economic development excluding. The economic development of leading economics of the planet is ensured by a mechanism of credit money, when the ratio of the money supply and international reserves is not essential in practice and affects indirectly on a stability of payment means. However, the development of the third wave of the global economic and financial crisis causes a gold reserves formation on the basis of high-grade assets to minimize losses from the global economic and currency crisis.

So, the transition to a common currency integrated community within EurAsEC in the next 5–7 years, under conditions of continuing instability of the U.S. dollar and the euro, as well as of uncertainty about China's policy regarding the use of accumulated huge foreign exchange reserves, appear to be reasonable, and the preparation for such a step – extremely *well-timed*.

In particular, this step will allow Republic of Belarus to ease the pressure of the National Bank on international reserves, to reduce the danger of an inflation import and default for debt obligations issued or guaranteed by the state.

The financial and economic policy of the EurAsEC countries involved in the project of the creation of the Economic and Monetary Union would become more predictable in case of realization of this specific scenario. The dynamics of the course of a common currency would do be determined by the market under

the influence of fundamental macroeconomic factors and at the same time the currency risk would do be spread more evenly between the National Bank of the Republic of Belarus and the Government of the Republic of Belarus, on the one hand, and non-economic actors, on the other one.

The bank of an integrated association within the boundaries of the EurAsEC will have to abandon issuing money firmly entrenched in the practice of the Central Banks of the States Parties, which balance ongoing active transactions. A new strategy for a single emission center of the former Soviet states should become the emission which takes into account the real demand for money. Another strategy to pursue during over a considerable period of time will inevitably lead to shortages or liquidity that retard economic growth and modernization of the economy, or to an excess of liquidity causing an inflation and outflow of long-term investments.

The key institutions that ensure the execution of resource support the real economy targets and low inflation – Central Banks – should have such authorized documents governing their activities, which guarantee their independence from the executive and legislative authorities in achieving this goal.

The Economic and Monetary Union on the basis of a common currency adoption causes making many political decisions most relevant to the management of the economy on the mega-, macro-and micro – levels. In the EU, only a few states in Eastern Europe (e.g. Estonia, Latvia) were ready to sacrifice their monetary and fiscal policy to focus on the conditions, which have been formulated without them, for joining the Economic and Monetary Union of the EU countries.

There are still no states among the CIS countries, except the Republic of Belarus and the Russian Federation to consider and study monetary integration processes while expressing willingness to correspond with any conditions laid down by another country or group of countries. However, this does not mean that there are no starting conditions to initiate the process of monetary integration in the CIS.

For their implementation one needs the intensive negotiations, the inventiveness of the integration process leading country (Belarus) and its willingness to make significant concessions, allowing other countries to take part in the decision-making process, which so far regards as the priority issues of the leading country, what is not actual under circumstances of information lifestyle in the megaeconomy and new political and economic realities from the standpoint of economic efficiency and long-term sustainability of economic systems.

To make the EMU of the Republic of Belarus, the Russian Federation and the Republic of Kazakhstan remain stable, these states need to ensure the freedom of transition of the economic factors in practice, market pricing and to

reduce the public administration impact, and also to devise mechanisms of a symmetric propagation of external shocks inside the EMU of the three states. The research performed by T. Bayomi, V. Chaplygin, B. Eigengreen, S. Tkachenko on the problem of symmetric response of the State Group to the shock changes of demand, offer, as well as of currency shocks, gives them a valuable tool for assessing the economic sustainability of the future monetary union. The skills of the top management of the Republic of Belarus to take into account political and economic ambitions of partner states and the interest of the states involved in the project to create a successful model of economic and monetary union in the Eurasian economic space are, in our opinion, the important predictors for the successful launch of the EMU within the EurAsEC three states.

The formation of the integrated economic space and the appropriate common currency area of the EurAsEC countries is impossible without a full exchange clearing. Only on the basis of the monetary clearing it is possible to replace currency turnover with foreign markets which use transactions in national currencies with national banks (only on the basis of clearing), and which independently carry out offsetting assets and liabilities. Even today international traders operate with national currencies of the CIS countries (Russian rubles and the Republic of Kazakhstan tenge including) in securious transactions by using global systems of Clearstream and Euroclear.

We are convinced that researchers and policymakers should overcome the dogmas of B. Balassa. The possibility of a simultaneous activity of a group of states to establish a customs union, and the possibility for their partners in the integration alignment to create a common economic space should be recognized (TKACHENKO, GULJAEVA 2009, p. 102). And measures to create a single economic space can be combined with efforts to introduce a common currency of an integrated association. One has also to consider the action that is almost completely absent in Western Europe. E. Vinokurov, A. Liebman call it „the social integration capital” (VINOKUROV, LIEBMAN 2009, p. 53, BALASSA 1975). Under „social integration” we purport the forces that the CIS countries can use for the successful implementation of economic and political integration. The term „social integration” brings together all the complex of social and economic practices, persisting in the CIS after the collapse of the Soviet Union, including the identity elements of the Soviet era inherited by the CIS countries.

Some of these practices tend to a weakening, although still effectively serve to the development of cooperation (e.g., knowledge of the Russian language and an interest in studying it). The other ones are retained due to the fact that they are beneficial for economic reasons, even if noticeable political costs are present (a preserved visa-free regime and free enough labor migration caused

by it, especially in Russia). The more sophisticated integration spheres (a free movement of workers) are solved in the CIS faster and more efficiently, that is under circumstances where the formal integration of goods markets made according to the model of the customs union faces the known difficulties. The weak control over the use of labor resources in most of the CIS countries facilitates it. The governing institutes are aware of this, but prefer carrying on the status-quo to strengthen the regulation of this sector.

The institutional model of the EMU in the post Soviet area should be based on different fundamental principles, than they were in the European integration. To our opinion, the economic and monetary integration in the CIS countries will develop on just the basis of the achievements in the development of financial institutions and markets sector of the EurAsEC economies. This process has a stage-by-stage character and consists of the following main stages of forming a scenario which is adequate to the requirements of modern realities for actors of the Eurasian integration.

We think, making the decision on the highest level about building models of financial markets based on the *mutual openness* and *the respect to each other* is the main stage. The openness of the coordinated policy in financial markets will ensure the fairly liberal access for foreign financial institutions from outside of integration association to these markets, while providing the economic security of the united states. The CIS countries should also start developing common principles for the regulation of credit institutions of the first and the second levels by following the accumulated experience in developing of *model legislation* in various areas of the economy and the security sector within the EurAsEC.

The aforementioned *stage of developing the model legislation* is a technical one, in fact, and should be followed by the second stage: *the introduction of the standards on regulating of credit institutions* of the CIS states on a consolidated basis, the arranging a mandatory exchange of information about the structure of the banking sector, the bank conditions and threats to the relationship between the national regulators and new parameters of the risk – based supervision. The CIS states should simultaneously switch to the unified Accounting Standards for all credit institutions (IFRS). In case of a successful completion, this stage will open the perspective of creating a single market for banking products and services for the states participating in the integration project. In fact, in this case the matter is to go about forming a single economic space within which the barriers to the free movement of economic factors, including goods, services, capital and labor would disappear. The credit and banking system of an integrative association for such a market, which is effectively functioning under the same rules, would be vital.

On the basis of the euro zone integration experience of the Economic and Monetary Union of the EU the problem of *creating a single economic and monetary space, based on the common institutions, shared values and legal norms* naturally appears as the third stage.

So, the unified credit and financial market of the EU is built on three general principles:

- 1) the mutual recognition;
- 2) the harmonized methods for the regulation by national institutions of all kinds of markets (in which the transnational structures operate on), as well as;
- 3) the supervision of credit and financial institutions in each country of the euro zone (the second level of the euro zone banking system) on the basis of a single monetary policy performed by the states of the Economic and Monetary Union of the EU countries.

Taking into consideration the specificity of the modern political and economic stage of development of the EurAsEC countries, we can predict the desire of the Central Banks to preserve the full executive power and management tools for the monetary and financial sphere. However, the role of interstate regulating structures seems to us highly desirable to gradually increase in this market segment.

The EurAsEC countries may include in their range a certain number of independent and semi-independent institutions that are able to be a kind of „fourth estate” for financial markets alongside with the government, legislators and judicial structures. In future their responsibility sphere and levers of influence will be likely to resemble the authority of intergovernmental structures. The only important issues of credit and financial markets with a political dimension may remain exception here, when government institutions retain the possibility to intervene directly in these markets functioning and to predetermine their practical steps. First and foremost, this concerns conducting anti-crisis interstate policy, as well as modernization and innovative development programs.

The introduction of a common currency within the EurAsEC will open the way to the formation of fundamental basis for the stable monetary zone, which would form the core of the financial markets integration and create the single financial center.

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**THE UNITED STATES AS THE TRADE PARTNER  
OF POLAND IN THE CONTEXT  
OF THE TRANSATLANTIC TRADE AND INVESTMENT  
PARTNERSHIP (TTIP)**

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**Key words:** International Trade, Economic Integration, Transatlantic Trade and Investment Partnership.

**A b s t r a c t**

Evaluation of the importance of the USA as the trade partner of Poland is the main objective of the paper, based on the changes in the value of trade during the years 2000–2012 and changes in the structure of trade during the years 2008–2012. The data from the Statistical Yearbooks of Foreign Trade published by the Central Statistical Office was used. The potential for foreign trade growth was illustrated using the simplified analysis based on the gravity model of foreign trade concept. Gradually increasing value of Polish trade with the USA (the average growth rate 9.8%, EU-15 countries 13.1%). Polish exports are characterised by a higher than imports growth rate (USA – exports growth by 12.5%, imports 9.2%, EU-15 – exports 15.1%, imports 11.6%). Trade is strongly dominated by position of one group of products (over 30% share in both exports and imports). The potential of trade is poorly exploited currently. Trade was focused mainly on the countries situated in the close neighbourhood (mainly the EU countries with the domination of Germany).

**STANY ZJEDNOCZONE JAKO PARTNER HANDLOWY POLSKI W KONTEKŚCIE  
TRANSATLANTYCKIEGO PARTNERSTWA HANDLOWO-INWESTYCYJNEGO**

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**Słowa kluczowe:** handel międzynarodowy, integracja europejska, Transatlantyckie Partnerstwo Handlowo-Inwestycyjne.

## Abstrakt

Głównym celem pracy jest ocena znaczenia USA jako partnera handlowego Polski na podstawie zmian wartości wymiany handlowej w latach 2000–2012 oraz zmian w strukturze handlu w latach 2008–2012. Dane o handlu zagranicznym pozyskano z roczników statystycznych opublikowanych przez Główny Urząd Statystyczny. Potencjał wzrostu handlu zagranicznego zilustrowano za pomocą uproszczonej analizy opartej na koncepcji modelu grawitacyjnego handlu zagranicznego. Stopniowo zwiększa się wartość obrotów handlowych Polski z USA (średnie tempo wzrostu 9,8%, kraje UE-15 13,1%). Polski eksport charakteryzuje się wyższym tempem wzrostu niż import (USA – wzrost eksportu o 12,5%, importu o 9,2%, UE-15 – 15,1% eksportu, importu – o 11,6%). Handel jest silnie zdominowany przez pozycję jednej grupy produktów (ponad 30% udziałów w eksporcie i imporcie). Potencjał wymiany handlowej jest obecnie słabo wykorzystywany. Handel koncentrował się głównie na krajach znajdujących się w bliskim sąsiedztwie (głównie krajach UE z dominacją Niemiec). Uwzględniając zatem, że wymiana handlowa USA z Polską jest relatywnie mała, zgodnie z założeniami TTIP dotyczącymi m.in. stymulacji aktywności ekonomicznej oraz przywrócenia przedkryzysowego tempa wzrostu gospodarczego, może to oznaczać, że istnieje duży potencjał wzrostu, zarówno dla importu, jak i eksportu.

## Introduction

During the entire post-war period, similar to the preceding periods, two opposite directions of trade policy clashed. One was represented by activities aiming at increasing openness of the national markets to the global economy (liberalisation). The other trend was represented by activities aiming at protection of national markets (protectionism). Both trade policy directions occurred with different intensity in the individual countries and during different periods (KAWECKA-WYRZYKOWSKA 2002, p. 33). Supporters of international trade liberalisation present economic benefits showing economic growth in the countries that opened their economies. Their opponents claim that free trade policy does not lead to economic growth but to the contrary, it is responsible for increasing the gap in the distribution of incomes between countries and the susceptibility of economies to occurrence of external shocks, which may have long-term negative influence on the economic growth rate of the country (DUGIEL 2009, p. 13).

Contributing to assuring rapid and sustainable development by participation of the country in the global economy is the general objective of foreign trade policy as a component of the economic policy. In practical terms, development of optimal for the given country relations with the foreign countries represents the basic task of the foreign trade policy (JELIŃSKI 2003, p. 43–44).

In economic theories, application of liberal trade policies is recommended. The majority of countries, however, intervene in trade. Negative consequences of protection require introduction of international trade policy coordination to

avoid the risk of national markets closing to the international trade. The order of the global trade system established for that purpose was based on the free trade idea (DUGIEL 2009, p. 17).

There is no doubt that Europe, among all the regions of the world, has the most elaborate network of agreements on trade liberalisation. Those agreements are made between many different countries and they differ in the intensity level of integration and mutuality of the liberalisation process (KANDOGAN 2005, p. 2). Regional trade agreements are usually classified to one of four different categories depending on their type: preferential trade agreements, free trade agreements, customs unions and common markets (VICARD 2009, p. 167).

The integration theory proves that liberalisation processes should develop according to the logical sequence. Otherwise, e.g. in case of an attempt at creating common markets despite continuing obstacles to trade, this causes losses (MOLLE 1990, p. 130–132). The trade creation and trade diversion effect forms the base of the classic free trade and customs union theory. Intensification of trade (increase in the volume of mutual trade) between the partners of the group as a result of trade liberalisation that leads to substituting domestic production by cheaper and more competitive goods from member states is the trade creation outcome. The differences in production costs between integration group partners form the base of the trade creation effect (VINER 1950, p. 42–76).

The trade creation consequences include two sub-effects possessing the direct influence on increasing trade: production sub-effect and consumption sub-effect. The first one represents substituting less effective production in member states by cheaper production from partner states. The consumption sub-effect in turn means substituting the more expensive domestic product in the market by a cheaper product imported from the partner state. The possibility of purchasing a larger volume of goods at cheaper prices (consumption increase) is the benefit to the consumer in this case (LIPSEY 1960, p. 504–505).

The trade creation effect can also be seen from a much wider perspective assuming that establishment of the integration group influences not only the domestic trade in countries that are group members but also the international trade as the whole. Looking from that perspective, the trade creation effect presents the general increase of demand for imports in the group member states and changes in demand for imports in countries from outside the group. This stimulates international trade development. This means that in the long-term integration leads to favourable structural changes in the economy and facilities to the flow of goods and services create opportunities for individual countries to focus the outlays on the most effective industries

(BOŻYK 2008, p. 37). The trade diversion effect covers the change in the current directions of trade caused by liberalisation of trade within the integration group and discrimination of the third countries. That effect is characterised by substituting supplies from producers in the third countries by supplies from producers originating from the partner states of the free trade or customs union zone (MOLLE 1990). Therefore, the trade creation and trade diversion effects as well as increased competition lead to the development of long-term complementarity of the demand and supply structures in the integrated economies of countries belonging to the group and strengthening their competitiveness as compared to the external partners (KUNDERA 1992, p. 24).

Following elimination of barriers to trade by the EU member states, the single market is supportive to expansion of trade between those countries (trade creation effect). Elimination of barriers resulted in substituting local production and supplies originating from third countries by internal imports when the external customs duty rates were higher than the internal rates (WYSOKIŃSKA, WITKOWSKA 2004, p. 15). What effects then may the Transatlantic Trade and Investment Partnership (TTIP) offer to its member states in the context of its goals? According to the position by the European Commission, the Transatlantic Trade and Investment Partnership is the agreement between the USA and the EU in the areas of trade and investments. Its main goal is to stimulate economic growth and creating new jobs by facilitating trade, making investments or by establishing enterprises (AKHTAR, JONES 2013, p. 1–11, PAPANYAN 2013, p. 1–4).

Further liberalisation of access to internal markets, elimination of barriers to investments by better regulations, elimination of customs duties in mutual trade, elimination of expensive non-customs barriers that hinder the flow of goods (including agricultural goods), improvement of access to the market of services, decreasing the costs of differences in regulations and standards (by promoting higher compliance, transparency and cooperation while maintaining high levels of health protection, safety and environment protection), development of principles and new ways of cooperation on issues of global importance (including intellectual property rights) and market mechanisms addressing the issues of state-owned enterprises and local barriers discriminating access to the market as well as promotion of global competitiveness of small and medium enterprises are also among the main TTIP goals (*Transatlantic...* 2013, p. 2–16).

For the consumers, the TTIP may mean much cheaper goods such as electronic equipment, computers, clothing, cars as well as raw materials (e.g. natural gas). The Union is to eliminate 96% of import tariffs retaining tariff protection only in case of certain food products. As projected by Polish analysts, in medium and long-term perspective the growth potential in foreign trade and the United States can be estimated at 20–30% at least. TTIP may

influence the trade relations of Poland with the USA at many levels. In case of the direct trade, this encompasses mainly export and import transactions in finished goods as well as import and export transactions related to industrial cooperation. Both models are of very significant importance particularly for Poland. The presented effects can generally be classified as trade creation effects. Trade diversion represents another possible effect. The scale of the diversion effect will depend in particular on the degree of trade conditions improvement and consequential cost effects. The smaller the scale of trade conditions improvement will be the lower the motivation for entrepreneurs to change the current directions of supplies will be (GURBIEL 2013, p. 3–31). The proposal of new, in majority eliminated customs duty tariffs from the European Union does not mean that the TTIP will be ratified soon. Some experts project that the Agreement, if the negotiations end in success, will not be signed earlier than in 2015.

### **Objective and scope of paper**

Evaluation of the importance of the USA as the trade partner of Poland is the main objective of the paper. That evaluation was conducted based on the changes in the value of trade between Poland and the USA during the years 2000–2012 and changes in the structure of trade during the years 2008–2012. Specific timeframes analyzes were conditioned by the desire to present a relatively long period for the analysis of the problem (2000–2012). While for detailed analysis were years 2008–2012, which may also be specific due to the economic crisis. For that purpose, the data from the Statistical Yearbooks of Foreign Trade published by the Central Statistical Office in Warsaw for years 2000–2012 was used. The potential for foreign trade growth was also illustrated using the simplified analysis based on the gravity model of foreign trade concept. This model was used because of the importance in the development of trade relations between the countries of the factor, which is the distance between them. It is also worth noting that in economic development especially in the technical development one can reduce the significance of distance in trade between countries. To avoid short-term changes, the data for five years (2008–2012) was considered in the analysis for evaluation of the trade gravity model. While determining the timeframe for the analysis, it was taken into account that the specificity of the process of gathering statistical data related to international relations causes that in case of some countries the data for 2012 may still be unavailable. Data from the Statistical Yearbooks of Foreign Trade for the years 2008–2012 as well as statistic data from the UNCTAD website on the GDP of selected countries was used for development of the model.

## The United States as the trade partner of Poland

### Changes in the value of trade between Poland and the USA against the European Union background during the years 2000–2012

TTIP is a project that combines elements of the liberalization of trade flows, investment agreements and contracts which harmonize regulations in international trade, designed to primarily stimulate economic activity and to restore the pre-crisis economic growth. Analysing the data on the value of trade between Poland and the USA it can be concluded that despite a certain increase during the recent years the bilateral trade relations continue to stay below their potential. During the years 2000–2012 the total value of trade in goods in foreign trade between Poland and the USA (exports + imports) increased from USD 3.1 billion to USD 8.7 billion, i.e. it almost tripled. During the same time the value of trade in goods with the EU-15 countries increased from USD 52.2 billion to USD 204.7 billion, i.e. it almost quadrupled. Tracing the dynamics of changes in value of foreign trade between Poland and the USA it can be noticed that the highest dynamics of growth occurred during the years 2008 and 2010 (as compared to the preceding year) and in 2004. During that year the highest increase in value of foreign trade of Poland with the EU-15 countries for the entire period covered was recorded at 29.7% (Fig. 1).

Changes in the value of trade between Poland and both the USA and the EU-15 countries caused that the relation of that trade (the USA – EU-15) was at the level of 5.6% in 2000 and in 2012 it decreased to 4.2%.

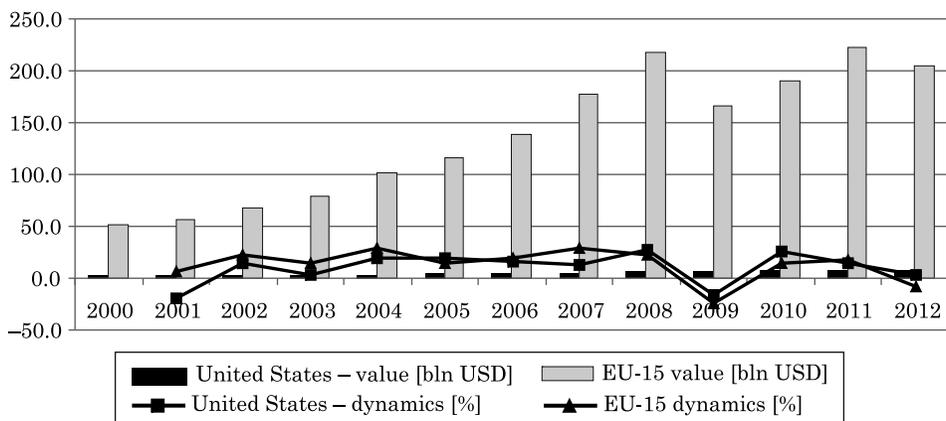


Fig. 1. Value and dynamics of trade between Poland and the USA and the EU-15 (2000–2012)  
Source: own study based on the Statistical Yearbooks of Foreign Trade for years 2000–2012, CSO, Warsaw.

Year 2009 was exceptional for the analysed period because of the decrease in the value of trade of Poland (compared to 2008) with both the European Union countries and the United States. The decrease was larger in case of the EU-15 countries (-23.5%) than in case of trade with the United States (-16.8%). During the period of economic crisis, Poland was faster in returning to the earlier value of trade with the USA as already in 2010 that value (USD 7.4 billion) was nearing or even exceeding the value of 2008 (USD 7.1 billion). In case of the EU-15 countries the value of trade in 2011 (USD 223.3 billion) returned to the level of 2008 (USD 217.1 billion).

Analysing the changes in the value of trade between Poland and the USA it is also worth noticing that the trade relations are linked significantly to the investments made in Poland by companies with participation of American capital. This is important because according to the UNCTAD statistical data, Poland is the largest recipient of direct foreign investments (DFI) among all the countries of Central and Eastern Europe. The specificity of operation of foreign companies in Poland is that they are entities that on the one hand contribute significantly to generating exports while on the other their operations are frequently based on imports of components or semi-finished products from companies operating in the original country of the foreign investor. Undertaking then attempts at defining the importance of provisions and solutions of the TTIP to economic relations it certainly is important that the agreement takes into account not only the trade related but also investment related aspects.

The indirect trade may be another aspect that might increase dynamics of trade between Poland and the USA. It is related to participation of Poland in international production arrangements. In this case, the TTIP may, for example, stimulate trade between Germany and the USA, which in turn may have positive influence on the trade between Poland and Germany given the participation of Polish enterprises in deliveries to German factories that later export their products to the USA. The current value of that trade, however, is difficult to estimate.

Changes in the trade value dynamics were subject to more detailed analysis that aiming at formulating a more complete diagnosis of the causes for changes in the value of trade between Poland and the USA. As indicated by the statistical data, the dynamics of changes in the value of imports during the analysed period in case of the USA and the EU-15 was characterised by similar direction (it was mainly the increase in the value of imports during the consecutive years) although the level of those changes differed. The highest dynamics of increase in the value of Polish imports from the USA was recorded during the years 2005, 2008 and 2010. Those, however, are the years during which the dynamics of increase of the Polish imports was higher than in case of

changes in the value of imports from the EU-15. While in 2010 the dynamics might have been the outcome of relatively low value of imports in 2009, it may be assumed that in 2005 and 2008 it resulted from a large increase in the inflow of direct foreign investments from the United States during the preceding years, i.e. in 2003, before accession of Poland to the EU (549 mln USD) and in 2007 (which at the same time was the record year as concerns the total inflow of the direct foreign investments into Poland – 1144.4 mln USD) (Fig. 2).

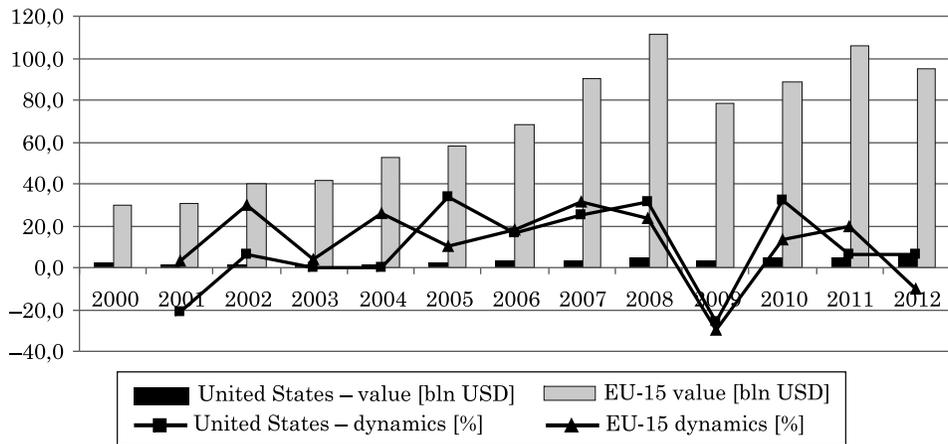


Fig. 2. Value and dynamics of Polish imports from the USA and the EU-15 in 2000–2012  
Source: own study based on the Statistical Yearbooks of Foreign Trade for years 2000–2012, CSO, Warsaw.

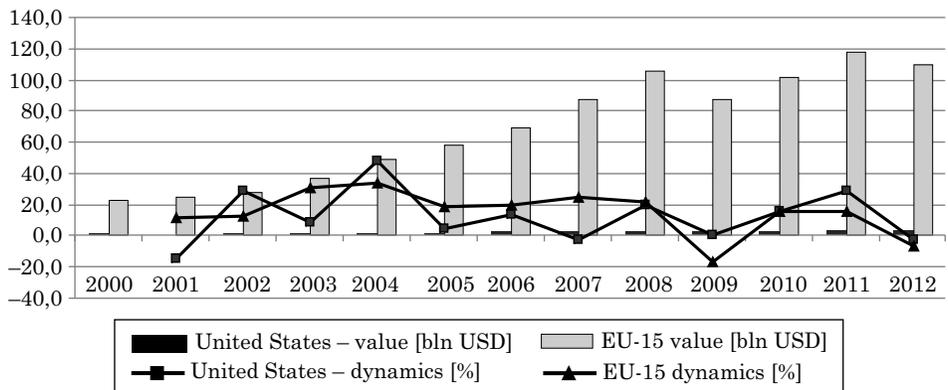


Fig. 3. Value and dynamics of Polish exports from the USA and the EU-15 in 2000–2012  
Source: own study based on the Statistical Yearbooks of Foreign Trade for years 2000–2012, CSO, Warsaw.

Analysing changes in the value of Polish exports to the United States against the background of changes in exports to the EU-15 countries it can be concluded, similar to the case of imports, that Polish exports to the EU-15

countries were characterised by higher dynamics. In 2004 as compared to 2003 the highest increase in the value of Polish exports to the USA during the entire analysed period was recorded USA at 48.3%. Similar situation was recorded in 2011 when the increase of Polish exports to the USA was 28.5% while to the EU-15 countries it was 15.8% (Fig. 3).

Evaluating the changes in the value of Polish imports and exports it can be concluded that exports were characterised by higher dynamics than imports. During the analysed period, the average growth rate of Polish exports to the USA was 12.5% while to the EU-15 countries it was 15.1%. As concerns the changes in value of Polish imports, the rate of those changes in case of both partners was lower at 9.2% in case of the USA and 11.6% in case of the EU-15 countries.

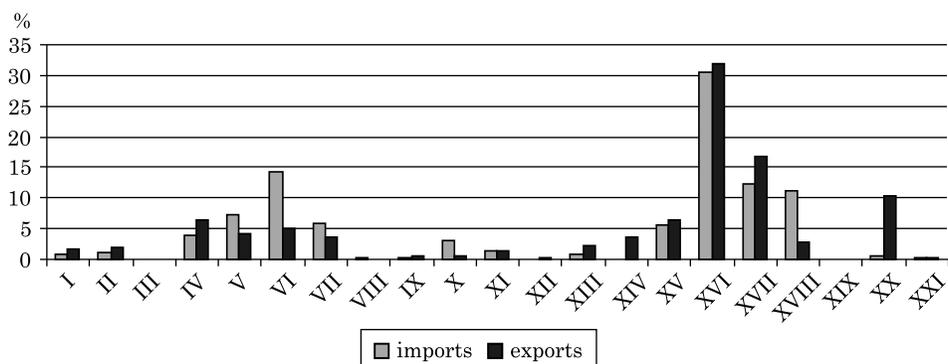
### **Structure of Polish trade with the USA according to the combined nomenclature**

Group XVI products (mainly jet turbine engines and parts for them, construction machines and devices, data processing machines, telephone sets, integrated circuits) played special role in the structure of the imports of goods from the United States considering years 2008–2012. In the structure of the imports and exports, the share of goods from that group exceeded 30% (Fig. 4).

Cars and parts of them as well as aircrafts with parts (XVII) were another important group of imported goods. The same group of goods (in particular motor vehicle parts, helicopters, aircraft parts and vessels) played an important role in exports from Poland to the USA. We import almost three times more products of chemical industry and related industries (VI) than we export. On the other hand, we export more than we import in case of goods such as, among others, vehicles, aircrafts, vessels (XVII), products of other industries (XX). In case of the exports from Poland to the USA the relatively higher share of the highest processed goods in individual groups of goods is noticeable.

### **The growth potential of foreign trade according to the gravity model of foreign trade**

The gravity model of foreign trade applied first by TINBERGEN (1962, p. 262–293) is the tool for measuring the determinants of international trade. That model was developed based on the Newton's law of gravity and it assumes that the value of trade between any two countries is proportional to the



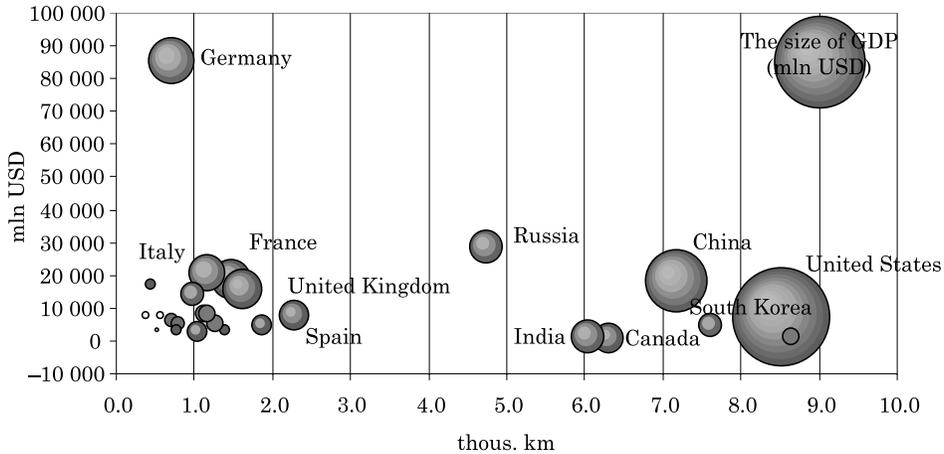
I – live animals; animal products	XII – footwear, headgear, etc.
II – vegetable products	XIII – articles of stone, ceramic products, glass
III – fats and oils	XIV – pearls, precious stones, metals and articles thereof
IV – prepared foodstuffs	XV – base metals and articles thereof
V – mineral products	XVI – machinery and mechanical appliances, electrical and electrotechnical equipment
VI – products of the chemical industry	XVII – transport equipment
VII – plastics and rubber and articles thereof	XVIII – optical, photographic, measuring, checking instruments, apparatus, etc.
VIII – raw hides and skins, articles thereof	XIX – arms and ammunition
IX – wood and articles of wood	XX – miscellaneous manufactured articles
X – pulp of wood, paper, paperboard and articles thereof	XXI – works of art, collectors' pieces and antiques
XI – textiles and textile articles	

Fig. 4. Structure of Polish trade (imports, exports) with the USA according to the combined nomenclature (CN), level 1 (average for the years 2008–2012)

Source: own study based on the Statistical Yearbooks of Foreign Trade for years 2008–2012, CSO, Warsaw.

product of the national income of those countries and inversely proportional to the distance separating them.

Considering the size of American economy (GDP in 2012 was 16,348,116 mln USD), it can be concluded that the potential of trade between Poland and the United States is characterised by poor level of use. The concept of the gravity model of foreign trade was used to illustrate the potential of Polish foreign trade. Three dimensions were considered in the model: the distance between Poland and selected countries, the value of trade between them and the GDP of those countries. The foreign trade of Poland during the years 2008–2012 was focused mainly on the countries situated in the relatively close neighbourhood. The European Union countries represented the majority of Poland's trade partners (Fig. 5).



The analysis covers countries in case of which the value of trade with Poland exceeded in average USD 1 million during the years 2008–2012

Fig. 5. Potential of the foreign trade of Poland based on the gravity model

Source: own study based on the Statistical Yearbooks of Foreign Trade for years 2008–2012, CSO, Warsaw.

The highest values can be observed in the foreign trade of Poland with Germany, Russia, Italy and France. On the other hand, trade with more distant countries involved mainly trade relations with China, the United States, South Korea, India and Canada. Given the economic potential of the United States (in this case measured GDP), the position of that country in Polish foreign trade was relatively weak. On the other hand, the economic potential of China was far lower than that of the USA and still the value of foreign trade with that country was higher. It can be concluded then that the factor of distance between the individual countries and Poland was of importance for the foreign trade of the country, but it was not the decisive factor.

## Conclusion

Based on the analysed data, it can be concluded that the geographic structure of Polish foreign trade differs from that of the more economically advanced countries in case of which geographic diversification is much greater. During the analysed period (2000–2012), gradually increasing value of Polish trade (exports + imports) with the United States can be noticed. The average growth rate of that trade was 9.8%. During the same period, that rate in case of the EU-15 countries was 13.1%. At the same time, it can be noticed that Polish exports are characterised by a higher than imports growth rate. That situation

was recorded in case of the United States (exports growth by 12.5%, imports growth by 9.2%) as well as the EU-15 countries (exports growth by 15.1%, imports growth by 11.6%). In case of both partners, the balance of trade is negative.

Analysing the structure of Polish trade with the United States the strongly dominating position of group XVI products (mainly jet turbine engines and parts for them, construction machines and devices, data processing machines, telephone sets, integrated circuits) can be noticed with over 30% share in both exports and imports. At the same time, a relatively higher share of the highest processed goods is noticeable in the exports.

It can be concluded based on the analysis of foreign trade potential using the gravity model that the potential of trade between Poland and the United States is poorly exploited currently. Polish foreign trade during the years 2008–2012 was focused mainly on the countries situated in the close neighbourhood (mainly the EU countries with the domination of Germany). The position of Poland as a trade partner of the United States is not too strong either. This results from the fact that the foreign trade of the United States is more diversified geographically and involves much longer average distances. Analysis of the United States trade with countries representing the GDP level similar to that of Poland allows concluding that the value of their foreign trade with the United States is higher than that of Poland (e.g. Belgium, Sweden, Norway and Argentina). Given that the trade with Poland is relatively small, in line with the TTIP which has to stimulate economic activity, there may be a relatively high potential for increase of both imports and exports exists.

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## STAKEHOLDERS ON THE INSURANCE MARKET

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**Key words:** stakeholders, insurance market, insurer's internal and external environment.

### Abstract

The aim of this study was to identify and describe the stakeholders on the insurance market and their expectations towards insurers. Insurance companies conduct operations on the financial market by collaborating with various market actors, including the owners, managers and employees of insurance undertakings, exclusive agents, independent agents, insurance brokers, private and institutional clients, banks, reinsurers, outsourcing companies, market competitors, insurance organizations, providers of business support services, research and development organizations and members of the community. Each stakeholder group has specific expectations towards insurers.

## INTERESARIUSZE RYNKU UBEZPIECZENIOWEGO

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**Słowa kluczowe:** interesariusz, rynek ubezpieczeniowy, otoczenie wewnętrzne i zewnętrzne ubezpieczyciela.

### Abstrakt

Celem artykułu jest zidentyfikowanie oraz przedstawienie interesariuszy rynku ubezpieczeniowego i ich oczekiwań względem ubezpieczyciela. Zakłady ubezpieczeń prowadzą działalność ubezpieczeniową na rynku finansowym, współpracując z różnymi podmiotami. Wśród tych podmiotów znajdują się: właściciele, menedżerowie, pracownicy towarzystw ubezpieczeń, agenci wyłączni, klienci indywidualni i instytucjonalni, pośrednicy ubezpieczeniowi, firmy outsourcingowe, konkurencja, instytucje ubezpieczeniowe, jednostki otoczenia biznesu, jednostki badawczo-rozwojowe oraz społeczeństwo. Każda z tych stron wnosi pewne oczekiwania w stosunku do zakładu ubezpieczeń.

## Introduction

The Polish insurance industry is a mature market where service quality and the generation of value-added services for consumers play a very important role. Customer-oriented businesses recognize the significance of corporate social responsibility. They are able to gain competitive advantage by analyzing their internal and external operating environments and identifying the needs of their stakeholders. The objective of this study was to identify and describe the stakeholders on the insurance market and their expectations towards insurers.

Stakeholders are entities who deal with an organization or are affected by an organization's actions (O'CONNELL 2009, p. 99, HĄBEK 2010, p. 9, BIELSKI 2002, p. 59). Stakeholders on the insurance market are part of an insurance

Table 1

Stakeholders on the insurance market

Internal environment			
Owners	Managers	Employees	Exclusive agents
Contribute capital, undertake risks associated with the launch of insurance activities and the insurer's operations	contribute knowledge, qualifications and managerial skills, make decisions	perform the assigned tasks, participate in defined processes, contribute knowledge and qualifications	sell insurance, participate in defined processes, contribute knowledge and qualifications
Insurance company			
Private and institutional clients	buyers of insurance products	businesses collaborating with insurers in different market sectors	outsourcing companies
Insurance intermediaries	independent insurance agents, brokers	supervisory authorities, providers of support and educational services	insurance organizations
Competitors	insurance companies in a life and non-life market sector	consulting companies, providers of training and advisory services	providers of business support services
Banks	bancassurance – bank cooperation with the insurance company	universities, research institutes	research and development organizations
Reinsurers	entities receiving portion of the insurance risk	navigators of social and environmental changes that improve living standards	members of the community
External environment			

Source: own elaboration.

company's internal (owners, managers, employees, exclusive agents) or external environment (private and institutional clients, insurance brokers, other insurers, outsourcing companies, insurance organizations, providers of business support services, research and development organizations and members of the community). Every stakeholder has specific requirements and expectations concerning its dealings with an insurance company. An insurer's priority goal should be to develop solutions and organizational processes that fully satisfy the needs and expectations of different stakeholder groups.

### **Internal environment**

An insurance company's internal environment is composed of its owners, managers, employees and exclusive agents. The owners of an insurance undertaking are a very important group of stakeholders. In most cases, they are large business groups that manage and invest private capital. This group of stakeholders focuses on the insurer's growth and satisfactory financial performance (increase in total corporate value, increase in stock price, availability of comprehensive and reliable information, insurer's reputation, observance of corporate governance principles).

Managers serve as go-betweens for an insurance company's owners and its employees. They develop an organization's infrastructure and create a positive working environment for employees. Managers have a highly responsible task of maintaining good relations with the owners of capital, employees, clients and other entities in the company's external environment. The expectations of this group of stakeholders are largely consistent with those of capital suppliers, but managers are also employees who have specific and individual needs. Motivational systems play a very important role in this group of stakeholders. In addition to financial compensation, non-monetary incentives, such as praise and acknowledgement, access to comprehensive and reliable information about the company's standing, work satisfaction, occupational safety, recognition and opportunities for personal growth, play an equally crucial role.

Exclusive agents are an important part of an insurance company's internal environment. An exclusive agent signs a contract with an insurance company whereby he undertakes to sell only the products offered by the company in a given insurance sector. Exclusive agents operate as sole traders, and they are not salaried employees of the insurance company. They account for a large group of stakeholders who work directly with insurers.

Exclusive agents are responsible for acquiring new customers, preparing contract documents, concluding insurance contracts, managing contracts,

handling claims, organizing and supervising agency services (Act of 22 May 2003 *on Insurance Mediation*, Journal of Laws of 2003, No. 124, item 1154, as amended, art. 4) in the name and on behalf of a specified insurance company (FUCHS 2012, p. 56). The insurer is held liable for an exclusive agent's actions.

Exclusive agents' expectations towards insurers include a varied product portfolio and attractive commission rates. Companies that offer insurance cover support the operations of exclusive agents who provide the insurer with new customers (FUCHS 2012, p. 60). As go-betweens for insurers and consumers, agents play a special role on the insurance market, and they should have expert knowledge of insurance products, rates and the customers' specific needs and expectations (MINTOF-CZYŻ 2006, p. 221).

### **External environment**

Private and institutional clients are the end-users of insurance services. Consumer behavior is influenced by a variety of endogenous and exogenous factors. Endogenous factors are conditioned by genetically inherited traits, whereas exogenous factors account for the influence of the external environment. Those factors are mutually interconnected, and they are a source of valuable information for every company hoping to gain a foothold in the insurance market.

Customer satisfaction is an important factor that contributes to an insurer's success. A satisfied customer is likely to become a loyal customer, and loyalty is a vital asset for every business. The main indicators of customer loyalty are repeat purchase, good opinion about the provider of insurance products and lasting attachment to the brand (GUILLEN et al. 2012, p. 3552). Customer care is the priority of every company with a quality-oriented culture. Quality considerations apply to various fields of business, including process standardization, minimizing a company's negative impacts on the environment, safe manufacture and use of goods (KALINOWSKI 2010, p. 11) and services. A company has to carry out in-depth analyses to identify, interpret and satisfy its customers' needs and expectations. Customer satisfaction is a very important goal for companies that are committed to the ISO 9001:2009 system. Organizations implementing this standard are under obligation to regularly monitor customer satisfaction levels. The resulting information is used to improve a company's quality management system.

Clients buying insurance products expect high-quality services that are reasonably priced. There are various elements of quality, including satisfactory customer service, legible and comprehensive information about products, access to information and a personalized approach to customers.

In the modern world, innovation is the catalyst to business growth. From the economic point of view, innovation is an organization's ability to continuously search for and deploy the results of scientific studies, the achievements of research and development institutions, new concepts, ideas and inventions (KALINOWSKI 2010, p. 15). According to Schumpeter, innovation is a process of improving products, creating new markets and sales methods, applying new raw materials, implementing new methods of production and introducing new organizational processes (SCHUMPETER 1960, p. 60). Innovative trends are also observed in customer service. Innovative solutions contribute to the fulfillment of customer needs. Innovative products and services generate specific benefits for customers and enable the company to achieve competitive advantage (KALINOWSKI 2010, p. 18, 19).

By working with various entities, insurance companies influence their external environment and the society as a whole. They participate in community life by supporting local initiatives, observing legal regulations, participating in sponsoring campaigns, accounting for social needs in their development strategies, counteracting unemployment and improving living standards. Insurance companies' involvement in social and environmental projects undoubtedly affects their financial performance (IWKO 2013, p. 73).

Insurers and other businesses can pursue sustainable development goals by implementing corporate social responsibility (CSR) programs that facilitate social dialogue in a company (SOKOŁOWSKA, TOPCZEWSKI 2010, p. 150). The concept of sustainable development postulates that the needs of the present generations should be met without undermining the sustainability of natural systems and the environment or compromising the ability of future generations to meet their own needs. The three interconnected pillars of sustainability are economic development, social development and environmental protection.

Corporate social responsibility is a concept that encourages businesses to assume responsibility for the consequences of their actions on the community and the environment. CSR rests on the discussed pillars of sustainability (Guidance on social responsibility ISO 26000, p. 9). CSR contributes to corporate image, it enables a company to gain competitive advantage and public recognition, which increases its chances of success (VIRVILAITE, DAUBARAITE 2011, p. 534–543). The European Commission has defined CSR as „a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (ADAMCZYK 2009, p. 43).

Consumers generally expect insurance companies to provide them with a sense of security and financial stability. As part of their CSR programs, insurers implement best practices in various areas of activity. The majority of

CSR projects aim to foster positive relations with members of the local community, finance measures that benefit the community and educate members of the public about risk assessment in insurance. Insurance companies initiate various measures in each of the seven core subjects<sup>1</sup> of social responsibility: human rights (Link4, TU Aviva S.A.), labor practices (STU Ergo Hestia S.A., TU Aviva S.A.), the environment (Grupa Allianz Polska), fair operating practices (Grupa Ergo Hestia, PZU S.A.), consumer issues (STU Ergo Hestia S.A.), community involvement and development (HDI Asekuracja TU S.A., PZU S.A., PZU Życie S.A., TU Aviva S.A. Grupa Allianz Polska, Grupa Warta) and organizational governance (Aegon TU na Życie S.A., TUiR Allianz Polska S.A., MetLife Amplico, Aviva TU Ogólnych S.A., AXA Towarzystwo Ubezpieczeń i Reasekuracji S.A., BENEFIA Towarzystwo Ubezpieczeń S.A., BRE Ubezpieczenia TUiR S.A., InterRisk TU S.A., TU COMPENSA S.A., WTUŻiR CONCORDIA CAPITAL S.A., STU ERGO HESTIA S.A., TU EUROPA S.A., GENERALI TU S.A., MTU S.A. Nordea Polska TU nŻ S.A., PZU S.A., PRAMERICA Życie TUiR S.A., Skandia Życie TU, TUiR WARTA S.A.) (IWKO 2013, p. 76–90).

Insurance intermediaries, including insurance brokers and independent insurance agents<sup>2</sup>, play an important role in the distribution process (BORKOWSKI 2012, p. 48) and constitute a large group of stakeholders on the insurance market. Their expectations towards insurance companies are similar to those of exclusive agents. Insurance brokers search for products that provide optimal insurance cover for their clients, whereas independent insurance agents typically represent various insurance carriers. Insurance brokers and independent agents have a common goal, which is to offer insurance products that best meet their customers' needs. Insurance intermediaries are an important group of stakeholders who influence the demand for insurance products (BANYAR, REGOS 2012, p. 1406).

Bancassurance is cooperation between insurance companies and banks, which relies on insurance services by banks. Banks and insurers enter into legal relations that allow bank customers purchase insurance protection (ORLICKI 2008, p 66). Bancassurance is a very important distribution channel for life insurance services<sup>3</sup>. This link brings many measurable benefits to both

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<sup>1</sup> The ISO 26000 standard prescribes seven social responsibility core subjects: organizational governance, human rights, labor practices, the environment, consumer issues, fair operating practices, community involvement and development.

<sup>2</sup> Pursuant to the provisions of Art. 2, section 2 of the Act on Insurance Mediation, insurance mediation services on the Polish market are performed exclusively by insurance agents and insurance brokers. Insurance agents are further subdivided into two categories based on their formal relations with an insurance undertaking: exclusive agents who work for one, particular insurance company and independent insurance agents who represent several insurance carriers.

<sup>3</sup> In 2012, the share premium acquired the distribution channel and division accounted for 38,57%, [http://www.knf.gov.pl/Images/V\\_Sprawozdanie\\_stat\\_2012-tcm75-35811.xls](http://www.knf.gov.pl/Images/V_Sprawozdanie_stat_2012-tcm75-35811.xls). (12.01.2014).

parties. First of all, insurance companies are responsible for the creation of insurance offers matched to the needs of banking customers.

From the point of view of the insurance cover essential is the reinsurance, which take full or part of the insurance company's risk to another entity. This entity may be another insurance or reinsurance specialist. Reinsurers for the part of the insurance premium are involved in the payment of compensation or benefits.

Insurance organizations and authorities play a very important role on the insurance market. The leading organizations on the Polish insurance market are<sup>4</sup>: the Polish Financial Supervision Authority (Komisja Nadzrou Finansowego – KNF), Polish Insurance Association (Polska Izba Ubezpieczeń – PIU), Insurance Guarantee Fund (Ubezpieczeniowy Fundusz Gwarancyjny – UFG), Polish Motor Insurers' Bureau (Polskie Biuro Ubezpieczycieli Komunikacyjnych – PBUK) and the Insurance Ombudsman (Rzecznik Ubezpieczonych – RzU).

Insurance organizations initiate activities that foster the growth of the insurance market, control market operations, protect stakeholder interests, develop and evaluate draft legislation addressing the insurance market, create opportunities for conciliatory settlement of disputes between stakeholders, collaborate with domestic and foreign organizations, associations and institutions in matters relating to insurance, acquire, gather, process and release information about domestic and foreign insurance markets, initiate educational and information campaigns, develop and administer databases gathering insurance statistics, and handle claims (WITKOWSKA 2009, p. 76–95).

Another group of stakeholders on the insurance market are providers of business support services, including consulting companies that offer training and advisory services, as well as research and development organizations, such as research institutes and universities. Polish consumers lack literacy and knowledge in insurance. Research has demonstrated that training companies and universities can effectively disseminate such knowledge to the public.

Insurance companies are increasingly likely to outsource various tasks that had once constituted their statutory obligations. Pursuant to the provisions of the Act on Insurance Activity, insurers are allowed to outsource the following insurance operations (Act of 22 May 2003 *on Insurance Activity*, Journal of Laws of 2003, No. 124, item 1151, as amended, art. 3, sections 4 and 5) risk assessment within personal and property insurance and surety contracts, payment of damages and other benefits due under insurance contracts,

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<sup>4</sup> In Poland, the interests of insurers are also represented by other organizations and associations, including: Polish Society of Actuaries, Association of Polish Insurance and Reinsurance Brokers, National Association of Insurance and Finance Intermediaries, Association of Polish Insurance Companies, Association of Loss Adjusters, Foundation for Insurance Education, National Insurance Institute, Polish Chamber of Insurance and Reinsurance Brokers, Polish Chamber of Insurance and Finance Intermediaries, Insurance and Risk Management Chamber of Commerce.

acquisition and sale of objects and rights acquired by an insurance undertaking in connection with the execution of an insurance contract or a surety contract, controlling policy holders' and insured entities' observance of safety rules and principles relating to the insured object stipulated in the contract or the general terms and conditions of an insurance agreement, conducting recourse proceedings and collecting receivables, investing assets, determining the causes and circumstances of fortuitous events, calculating the amount of damages, compensations and other benefits due under insurance contracts or surety contracts, determining the value of an insured object, preventing or minimizing the outcomes of insured accidents or financing such operations from prevention funds.

Market competitors are also stakeholders on the insurance market. Their mutual relations shape the demand for and the supply of insurance products. Strategic alliances created by insurance undertakings influence the competitive advantage and market standing of entire business groups (LASAK 2008, p. 185–186). In 2013, personal and property insurance was offered by 31 companies, and there were 28 providers of life insurance products on the Polish market<sup>5</sup>. Their mutual expectations are generally related to insurance operations, product distribution, cost optimization and comprehensive customer support.

## Conclusions

This paper discusses various stakeholder groups on the insurance market and their expectations towards insurers. The operations of insurance companies are influenced by various market actors who compete or cooperate with one another directly or indirectly and mutually influence their key areas of activity. The discussed stakeholder groups have shared expectations, which are mainly to satisfy the goals of all parties, to achieve a high level of financial security, to stabilize their market position and build mutual trust.

Private and institutional clients are the direct recipients of insurance services. Insurance companies can effectively identify and satisfy the unique needs of their clients by conducting regular customer satisfaction surveys. Insurers reach their customers via diversified distribution channels. Indirect channels include insurance agents and brokers – stakeholders who largely

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<sup>5</sup> In Poland, insurance products are also offered by foreign insurers who are authorized to carry out their activities under the freedom to provide services or foreign insurers who operate a branch office in Poland. At the end of the second quarter of 2013, there were 600 insurers and 13 branch offices of insurance companies from EU Member States and European Economic Area countries (*Raport o stanie sektora ubezpieczeń po II kwartale 2013 roku*, Polish Financial Supervision Authority 2013, p. 7, [http://www.knf.gov.pl/opracowania/rynek\\_ubezpieczen/Raporty\\_opracowania/raporty\\_opracowania.html](http://www.knf.gov.pl/opracowania/rynek_ubezpieczen/Raporty_opracowania/raporty_opracowania.html) (retrieved on 12.12.2013)).

influence customers' perceptions of service quality. The employees of insurance companies are internal customers who constitute an important group of market stakeholders. Satisfied employees create satisfied customers.

The operations of insurance companies are influenced by stakeholders from the external environment. In addition to insurance organizations and authorities, insurers also work with banks, reinsurances, providers of business support services, research and development organizations and members of the local community.

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**SOME ISSUES CONCERNING THE FORMATION  
OF THE COMMON ECONOMIC SPACE  
OF KAZAKHSTAN, RUSSIA AND BELARUS**

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**Key words:** common economic space, foreign trade, state support, import, export.

**Abstract**

The article discusses the issues of creating a common economic zone with the countries of the Common Economic Space by comparing this economic area to the area of the European Union. Analysis of contracts for its establishment is for consideration, as well as the pluses and minus of the implementation of the grant agreement on the CES industrial countries. A comparison of these two economic zones with similar economic problems will enable the future of their cooperation.

**WYBRANE ZAGADNIENIA DOTYCZĄCE TWORZENIA WSPÓLNEJ PRZESTRZENI  
GOSPODARCZEJ KAZACHSTANU, ROSJI I BIAŁORUSI**

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**Słowa kluczowe:** Wspólna Przestrzeń Gospodarcza, unia celna, handel zagraniczny, import, eksport.

## Abstrakt

W artykule omówiono problematykę utworzenia od 1 stycznia 2012 r. Wspólnej Przestrzeni Gospodarczej (CES) Kazachstanu, Rosji i Białorusi. Celem artykułu jest przybliżenie istoty utworzonej przestrzeni gospodarczej wraz z posiadanym potencjałem na bazie obrotów handlowych z jednoczesną analizą silnych i słabych stron wskazanego obszaru gospodarczego. Poznanie wybranych aspektów nowej, wschodnioeuropejskiej przestrzeni gospodarczej przybliży problematykę wymiany handlowej, co z kolei pozwoli wyeliminować bariery integracji obu obszarów w przyszłości.

## Introduction

Since January 2012, the Customs union has been transformed into the Common Economic Space. 17 agreements between these states are in force which assume the introduction of general economic mechanisms which are based upon „the principle of four freedoms”: trade in goods, trade in services, movement of financial capital, and the free movement of citizens of the participating states<sup>1</sup>. Participation in the CES can promote a considerable improvement of economic indicators in Kazakhstan. The creation of a new international integration association demands the accurate and coordinated solution of an entire complex of problems: the creation of scientific and technical reserves, the organization of mass production, transport service, the concentration of financial markets, (including credit resources), information

Table 1

Comparison of economic zones

Rate	CES-RKB	EU
Countries	3	27
Surface area	20,030,748 km <sup>2</sup>	4,381,376 km <sup>2</sup>
Population	170 mln	505 mln
Inhabitants km <sup>2</sup>	9/km <sup>2</sup>	115/km <sup>2</sup>
GDP	2.895 bn \$	16,584.0 bn \$
GDP per inhabitant	16,137 \$	32,021 \$
Unemployment	6.2%	12.1%

Source: Eurostat 2013 and the Federal State Statistics Service of Russian Federation 2013.

<sup>1</sup> COMMON ECONOMIC SPACE-Transnational regionally-economic community of States Customs Alliance – Belarus, Kazakhstan and Russia. The decision to create ECONOMIC ZONE entered into force on 1 January 2012. In the full extent integration agreement CES operate from July 2012. CES represents the one of the forms of interstate integration, the aim of which is to liberalize international economics relations within the union and the collective realization of protectionism for its borders. ZONE task is to protect the so-called „four freedoms” between the countries – participants: Movement of goods, capital, services and the working force, and security began to coordinate economic policy of the states – participants regarding macroeconomic and financial sector, transport and energy, trade, industrial and agro- industrial complexes and product.

support, marketing, etc. It is necessary to resolve these issues not alone as a single country, but as a set of the countries interested in this project (ABALKIN 2002 s. 32). At present, a fight against financial difficulties, such as inflation must be carried out through import substitution, the strengthening of export and an exit strategy to achieve a positive balance of foreign trade. A comparison of the CES (Russia, Kazakhstan, Belarus) and the EU are presented in Table 1.

### **Analysis of the latest research and publications**

The scientific proposal for the direction of the formation of the common economic space and its single theoretical and practical questions are investigated in the works: ABALKIN (2002), KULESHOV et al. (2011), URUNOV (2003), MOLENDOWSKI (2012), ZYSK, GROMALA (2013) as well as others. At the same time, a significant number of scientific problems concerning the formation of the common economic space between countries of the Customs union is still unresolved.

The main **objectives of research** on the formation of the Common Economic Space (CES) are:

- the effective functioning of the general (internal) commodity market, services, capital and labor;
- the creation of conditions for the stable development of a restructuring of the economy of these countries – participants according to an increase of living standards for their populations;
  - carrying out a coordinated tax, monetary and credit, currency, financial, trade, customs and tariff policy;
  - the development of unified transport, power and information systems;
  - the creation of a general system of measures for the state support of developing priority branches of the economy, as well as production, scientific and technological cooperation.

### **Main results of the Analysis**

According to operational data, the current volume of foreign trade in goods of member states of the Customs union for January-May 2012 was 383,6 billion US dollars<sup>2</sup>. Export volume in comparison to January-May 2011 in current

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<sup>2</sup> The results of external and mutual trade of the Customs Union in January-May 2012 [www.tsouz.ru](http://www.tsouz.ru)

prices has increased to 12.8%, or 28.9 billion US dollars, import volume has increased to 5.9%, or 7.2 billion US dollars. In January-May 2012 there was a positive balance in foreign trade of goods of 125.8 billion US dollars. In January-May 2011 its volume was 104.1 billion US dollars (Tab. 2).

The volume of mutual trade in January-May, 2012 was 28.3 billion US dollars, or 115.5% as compared to the level of January-May, 2011 (Tab. 3).

Table 2  
Volume of foreign trade for the members of the Customs union in January-May 2012  
(billions of US dollars)

The name of the states	Export	Import	of Balance	To % by January-May 2011	
				export	import
Customs union RKB	254.7	128.9	125.8	112.8	105.9
Including:					
Republic of Belarus	14.3	6.8	7.5	151.5	75.4
Republic of Kazakhstan	35.7	9.7	26.0	115.6	131.1
Russian Federation	204.7	112.4	92.3	110.4	106.8
European Union	1,525.0	1,714.0	-189.0		

Source: World Trade Organization 2013.

Table 3  
Volume of mutual trade between member states of the Customs union in January-May 2012

The name of the states	Bln. dollars. USA	In % by January-May, 2011	The Specific weight in the volume (%)
Customs union RKB	28.3	115.5	100
Including:			
Republic of Belarus	6.7	116.4	23.7
Republic of Kazakhstan	2.7	75.3	9.4
Russian Federation	18.9	124.6	66.9

Source: Federal State Statistics Service of the Russian Federation 2013.

It is shown in the table that 9.4% of the volume of mutual trade between the states (members of the Customs union) is for Kazakhstan. The main share is occupied by Russia – 66.9%. Taking into account international experience, any economic integration is accompanied by various problems and difficulties. Part of these difficulties are connected with working out standards for the unified customs legislation in practice. A number of agreements have been developed and accepted for the question of the regulation of mutual recognition of documents by customs authorities, among them main economic problems are concerned (Tab. 4) (KULESHOV et al. 2011, p. 12–17).

Table 4  
Analysis of Agreements on the formation of the Common economic space of Kazakhstan, Russia and Belarus

The name of agreements	Purpose of agreement	Impact upon Kazakhstan	
		positive side	negative side
1	2	3	4
The agreement for cooperation and counteraction concerning illegal labor migration from third countries	definition of the directions and forms of cooperation of the parties	decrease in illegal migration. Increase in number of the organizations on migratory service in RK	increase in number of illegal immigrants to the republic that will sharply increase work on deportation and the maintenance of illegal immigrants
The agreement on legal status of workers – migrants and members of their families	definition of the law status of migrant workers and members of their families, and also procedure regulation by workers – migrants of labor activity and the questions connected with their social protection	common market of labor without restrictions labor outflow, especially from the industrial sphere	deficiency of labor, increase of labor cost
Agreement on common rules for the state support of agriculture	establishment of rules, implementation of state support of producers of agricultural goods	establishment of identical subsidies for the agriculture of 3 countries	the market for grain will be significantly extended the competition for meat and dairy animal husbandry will increase
Agreement on common principles and competition rules	establishment of common principles and the rules of competition providing the identification and suppression of anti-competitive actions in the territory. The parties and actions having negative impact on competition in cross-border markets on the territories of two or more Parties	access to a common market	competition for Kazakhstani producers is increasing. Much time is required to enter the agricultural production of the Russian market
The agreement on the common principles of regulation in the sphere of protection and protection of intellectual property rights	unification of the principles of regulation in the sphere of protection and protection of the results of intellectual activity and means of an individualization of goods, works and services which are protected by the national legislation of the Parties	has no influence	prosecution of intellectual property „pirates”

cont. table 4

1	2	3	4
<p>Agreement on the government (municipal) procurements</p>		<p>organization of the common market of government procurements. Kazakhstani agricultural producers will gain access to the Russian market through local intermediaries. The arrival of Russian firms to the market of government purchases of Kazakhstan is possible. In particular, project and scientific works which are currently performed by foreigners</p>	-
<p>Agreement on common rules of granting industrial subsidies</p>	<p>establishment of common rules of granting subsidies for the territories of participating countries of the present Agreement concerning industrial goods</p>	<p>establishment for the industries of 3 countries to have identical subsidies</p>	
<p>The agreement on coordinated macroeconomic policy</p>	<p>definition of the directions of carrying out the coordinated macroeconomic policy of the Parties and formation of the principles, order and the mechanism of its coordination</p>	<p>lack of additional benefits at the Russian and Belarusian suppliers at the expense of inflation of their currencies. Possible increase in transfers from National fund. Registration of Russian firms in Kazakhstan for a decrease in tax loading</p>	<p>most likely, tangible devaluation</p>
<p>Agreement on agreed principles of currency policy</p>	<p>carrying out a coordinated currency policy</p>	<p>a coordinated currency policy without sudden devaluation, etc.</p>	<p>most likely, a supranational settlement monetary unit. The impossibility of sharp jumps of national currency</p>
<p>The agreement on creation of conditions in the financial markets for ensuring free movement of capital</p>	<p>ensuring free movement of capital in the financial markets. Creation of a common financial market</p>	<p>creation of a common financial market. Investment of Kazakhstani investors into the economy of these countries. Release of Kazakhstani securities to the Russian exchanges</p>	<p>departure of Kazakhstani financiers to the labor market of Russia and Belarus</p>

cont. table 4

1	2	3	4
<p>The agreement on trade in services and investments in the states – participants of the Common economic space</p> <p>The agreement on common principles and rules of technical regulation in the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation</p>	<p>creation of the common principles and rules for mutual trade in services, investments in the states – participants of CES</p> <p>the parties make a coordinated policy in the field of technical regulation, being guided by the provisions of article 2. Agreements on carrying out the coordinated policy in the field of technical regulation of sanitary and phytosanitary measures from January 25, 2008</p>	<p>common market of investments and services. Mutual recognition of licenses</p> <p>standardization of technical standards which will allow the reduction of competition from the third countries</p>	<p>it will increase the dependence of production and business on bodies of technical regulation</p>
<p>Agreements on an order of application of special protective, anti-dumping and countervailing measures during a transition period</p>	<p>the coordinated application of special, protective, anti-dumping and countervailing measures in trade with third countries and definitions of an order of transfer and distribution of special, anti-dumping and countervailing duties</p>	<p>protection of member states of the Customs union concerning the import of goods from third countries</p>	
<p>The agreement on regulation of access to services of railway transport, including bases of tariff policy</p>	<p>ensuring access of consumers to services of railway transport and implementation of transportation across the territory of the state of the Parties on terms not less favorable than for state consumers</p>	<p>export of Kazakhstani goods to the Russian and Belarussian railroads on their internal tariffs. The general access to the market of transportation</p>	<p>competition with Russian carriers. Increase of internal tariffs</p>
<p>Agreement on the creation of a common market of oil and oil products</p>	<p>formation of a common market of oil and oil products</p>	<p>free supply of Russian and Belarussian oil products to Kazakhstan without quotas and restrictions. Free application of tolling schemes</p>	<p>inflation will be increased as a result of a rise in prices for oil products. A rise in prices for oil products will negatively affect on the costs of agricultural production</p>

Source: Official site of the Customs union of the RKB 2014.

It would especially be desirable to focus on the Agreement of common rules on the support of agriculture in the participating countries of the Customs union which assumes that the amount of state support in Belarus, Russia and Kazakhstan will be identical. Meanwhile, experts predict that an attempted unification of the total amount of state support for the Customs union countries – will lead to deadlock. Experts are focusing their attention on the differing total amounts of state support for agrarian and industrial sectors in the countries of the Customs union, and the requirement to reduce indicators to a common denominator will bring negotiations on this question into a deadlock.

The analytical center for economic policy in agrarian and industrial sectors analyzed this project agreement and came to a conclusion that separate provisions of this document need additional study at the level of the ministries. Some experts consider that in focusing on state support it is necessary to proceed from a product line, others suggest to agree upon a level of state support falling on each commodity position, etc. Thus, the Customs union countries within the agreement came to a common position, having established an allowed level of 10% from the gross cost of made production<sup>3</sup>. This norm will give a chance to Kazakhstan to increase volumes of state support for the agrarian branch from the present 4% to 10%, and that will allow the country to increase rates of agricultural production and to provide the population with domestic production.

The creation of the CES which unifies the Republic of Kazakhstan with Russia and Belarus also provides the possibility of refusal from some industrial subsidies giving support to certain enterprises. Such measures are taken for the purpose of ensuring fair competition.

The force of economic relations between market institutions of certain CIS countries is different. The actual level of integration of commodity markets and services, capital, as well as labor movement also differs. Quite probably in the long term, many countries will belong at the same time to several groups, which will testify that economic integration happens in many measurements and on different bases (Urunov 2003, s. 32–35).

On the one hand, the Agreement upon industrial subsidies for the economy of Kazakhstan will provide a number of advantages, but on the other hand, opportunities which could arise with state support, will be missed. For example, the guaranteeing of credits and the subsidizing of interest rates for these credits are forbidden subsidies and must be excluded. As a result, it is necessary to weigh all the pluses and minuses of all opportunities with the

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<sup>3</sup> Information and reference materials. Common Economic Space. Information prepared by the regional office of the CCI of Russia in Central Asia. Run. O. Hmel'nitskaya. Almaty. January 2012.

standardization of legislation in the Customs union concerning industrial subsidies (Tab. 5)<sup>4</sup>.

Table 5

The main pluses and minuses of implementation of the Agreement on industrial subsidies in CES countries

Positive aspects	Negative aspects
Formation of conditions for development of national industrial production on the principles of fair competition	creation of risks of deterioration of separate branches of the national economy
Creation of incentives for economic cooperation and expansion of mutual trade between the countries – participants of the CES according to interests of consumers	possible reduction in the export of industrially produced goods and a decrease in the export potential of the country
Elimination of unreasonable barriers to the export of national industrial output on the markets of the participants of the CES	

Source: own work on the basis Tamozhennyj Sojuz – nezavisimoe obozrenie, on line: [www.customsunion.kz](http://www.customsunion.kz)

As a whole it should be noted that advantages from the implementation of this agreement exceed the potential minuses connected with the process of introduction and ensuring the implementation of obligations, accepted by the parties within the Agreement. Nevertheless, it is necessary to pay special attention to noted potential threats and risks, in order to provide necessary norms and to take adequate measures for their minimization taking into account the interests of the Republic of Kazakhstan.

Some other agreements have been accepted, excepting those agreements mentioned by the countries of the Customs union. For example, the cooperation and mutual aid agreement in customs affairs concerning the activity of customs service representatives, about the organization of exchanging information for the realization of analytical and control functions of customs authorities of member states of the Customs union, etc. It should be noted that all of these agreements within the CES are directed toward the creation of a huge market and will be a strong incentive for Kazakhstani producers to develop business, and produce competitive goods and services.

However, at the same time it is necessary to notice the obvious minuses which will be caused by the introduction of the Customs union. The first minus will be an essential rise in prices for many goods of 10–20%. Customs tariffs for Russia and Belarus coincide, but for Kazakhstan these tariffs were much lower. Therefore, 80% of commodity positions of Russian tariffs will be applied, despite a request by Kazakhstan to delay this process for 5–10 years.

<sup>4</sup> Customs Union: history of development. Astana, November 29, 2012. [www.bnews.kz](http://www.bnews.kz)

In the Commission of the CES, 57% of the votes belong to Russia, with the remaining votes split evenly between Kazakhstan and Belarus at 21.5% each. If Kazakhstan and Belarus want to make any changes, they only have the right to do so with the approval of Russia. Therefore, it will be difficult for Kazakhstan to defend its own economic interests. Nevertheless, it is still too early to draw hasty conclusions. By the estimates of the Russian Academy of Sciences, Russia at the expense of the integration process will receive an additional 16.8% of the modern level gross domestic product, Belarus-16.1%, Kazakhstan-14.7%. Thus, the total integration effect by 2015 will earn approximately 400 billion dollars. Other analysts consider that it is a favorable transit project between the European Union and China. By their estimates, the trade turnover between the East-West in the years 2012–2015 will reach a level of 1 trillion US dollars.

## Conclusions

As a result of the research conducted, it is possible to confidently tell about the notable advantages of the formation of a common economic space with the countries of the Customs union:

- a Common customs territory which does not break the frontiers of the participating countries has been formed;
- in the territory of the Customs union, it is possible to move duty-free goods of native or foreign production, naturally, in the presence of the relevant documents;
- turnover of mutual trade in connection with the cancellation of customs barriers (costs of brokers and registration of export declarations) will increase;
- standard terms for the release of goods in free circulation (it being considerably reduced) has changed;
- non-tariff regulation is cancelled: the requirement of licenses, permissions, and the observance of quotas to participants of foreign economic activity has been cancelled;
- economic and political stability;
- a significant change in the market of fuel and energy production, nonferrous and ferrous metallurgy, and agricultural grain has been extended;
- the branches which have fallen into decay – winemaking, cultivation of fruit and vegetables, etc. have been developed;
- favorable conditions for cross-country modulations of capital and labor have been created;
- competition between producers that will favorably affect the economy-wide dynamics of domestic production will increase.

The next stage is to be the creation of the Eurasian Economic Union by 1. January 2015. It is the proposed political and economic union of Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Uzbekistan, Tajikistan and other countries, in particular the post-Soviet states.

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**BEHAVIOR OF HOSPITAL MID-LEVEL MANAGERS  
IN BUDGETING IMPLEMENTATION –  
AN EMPIRICAL STUDY**

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**Key words:** hospitals, budgeting, managing change, Lewin's model, middle-level managers.

**A b s t r a c t**

This study examines the introduction of management changes in a hospital based on the Lewin's model. It focuses on the attitudes of a hospital's mid-level managers to a new management-budgeting system. The conclusions are based on empirical research. The article analyzes the change implementation process related to the budgeting system in a hospital with particular consideration of the attitudes and the level of involvement of employees in the performance of new tasks. The analysis showed that the top management of hospitals and the mid-level management do not see the effects of changes related to budgeting in similar ways. This may cause significant hindrances to the process of employees adopting attitudes and behaviors required by the top management. The diversity of opinions in this area may result from: not specifying in detail the targets of budgeting by the top management or not informing the medium-level management of them, a lack of set measures for evaluation of the performance of budget tasks, aiming at achievement of the assumed targets by means of methods not accepted by the employees.

**POSTAWA ŚREDNIEJ KADRY KIEROWNICZEJ W PROCESIE WDRAŻANIA  
BUDŻETOWANIA – STUDIUM PRZYPADKU**

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**Słowa kluczowe:** szpitale, budżetowanie, zarządzanie zmianą, model Lewina, średnia kadra kierownicza.

## A b s t r a k t

Celem artykułu była ocena postawy średniej kadry kierowniczej szpitala w procesie wdrażania systemu budżetowania na podstawie modelu Lewina. Stopień zaangażowania pracowników szpitala w realizację nowych zadań związanych z wdrożeniem budżetowania oceniono na podstawie badań ankietowych przeprowadzonych pośród kierowników działów, ordynatorów/koordynatorów oddziałów oraz pielęgniarek oddziałowych. Analiza wyników wykazała, że efekty zmian związanych z budżetowaniem nie są dostrzegane w podobnym zakresie przez dyrekcję szpitali i średnią kadry kierowniczą. Może to istotnie utrudniać proces identyfikacji pracowników, polegający na przyjęciu postaw i zachowań pożądanych przez naczelne kierownictwo. Zróznicowanie opinii w tym zakresie może wynikać z: niesprecyzowania celów postawionych przed budżetowaniem przez dyrekcję lub niepoinformowania o nich średniej kadry kierowniczej, braku ustalonych mierników oceny stopnia realizacji zadań budżetowych, dążenia do osiągnięcia założonych celów metodami nieakceptowanymi przez pracowników.

## Introduction

Currently, health care institutions are undergoing a period of rapid transformation (SCROGGINS 2006). Particular focus is being placed on quality improvement coupled with a simultaneous decrease in costs (WEST 1998). The skills of adjusting to the new conditions are the basis for the successful implementation of any changes in a business entity. They are particularly important for a health care institution where implementation of new solutions requires an awareness change from both the management and the entire staff. This requires a crucial role to be played by the physicians, with particular focus on the heads of departments who supervise treatments and organize the work in the department. It also requires the engagement of nurses and, above all, the nurse leaders and department managers (ROEMER 1996, EMBERTSON 2006). In the majority of hospitals, each of those groups reacts differently to the changes made in both the area of administration and in the realm of medical procedures (WEST 1998, GROSS et al. 1996). Budgeting as a management tool aims at supporting the management in taking decisions and establishing mechanisms for effective management of the institution. In practice, this is manifested through supporting the performance of the basic management functions, i.e. planning, informing, motivating and controlling. Entities which have implemented a budgeting system use it, first of all, in an administrative manner, for coordination of activities by individual hospital units, planning the demand for material resources and analysis of the planned profitability of the hospital and individual centers of responsibility (CYGAŃSKA 2007). The effectiveness of budgeting depends on its successful implementation. The aim of this article is to analyze and evaluate the change implementation process related to the budgeting system in a hospital, with particular consideration of the attitudes and the level of involvement of employees in the performance of

new tasks. This paper includes an empirical study, conducted between October 2011 and December 2011. The study involved four Polish hospitals within the same region which were identified by the letters *A*, *B*, *C* and *D*. The choice of the sample hospitals was deliberate. They were all institutions in which the managements had consented to the study and had implemented modern management and budgeting systems.

## Background

Human resources, along with natural and capital resources, play an important role in the functioning of an organization (*Zarządzanie zasobami ludzkimi...* 2006). This results from the fact that the people determine in which way all the other resources of the institute are used. It should, however, be pointed out that this resource includes not just the people themselves, but also their knowledge, skills, health, attitudes, values and motivations (POCZTOWSKI 2003). The crucial role of the employees in this process makes it vital to select appropriate human resource management methods and instruments. Human resource management is defined as the personnel functions of the organization, whose task is to adjust the characteristics of human resources to an organization, harmonized with the needs of employees under specific external and internal conditions (*Zarządzanie zasobami ludzkimi...* 2006). This notion is also defined as the systematic undertaking of various activities aiming at unifying the organization as it concerns the implemented strategy, existing culture and the dialogue between the managers and employees of the unit (PEI et al. 2004). In the subject literature, two approaches to human resource management are highlighted: the „hard” and the „soft” approach (*Zarządzanie zasobami ludzkimi...* 2006). The „hard” human resource management approach encourages the selection of employees for the organization based primarily on the cost criterion, combined with work quality and productivity. Attention is also drawn to minor participation of the employees in decision making. The „soft” approach, on the other hand, highlights the importance of communication and motivating employees, as well as aiming at balancing the individual needs of the people with the needs of the organization. The modern approach to human resource management that should be reflected in health care institutions requires assuming the perspective of the interests of different internal and external groups in the implementation of actions related to personnel management (POCZTOWSKI 2007). The choice of the appropriate approach to HR management is of particular importance in the process of organizing work at hospitals. This is related to high diversity in the employment

structures at those health care institutions considering education, functions and influence of employees on the quality of services provided.

Three basic groups of personnel can be identified in hospitals:

- medical personnel: doctors, nurses, midwives, medical technicians, rehabilitation personnel;
- technical personnel: attendants, moving personnel, employees of technical departments, service personnel (kitchen, laundry);
- administrative personnel: management staff, employees of accounting, marketing, etc.

While managing the technical and administrative personnel should cause no difficulties, medical personnel management and development of a methodology for evaluation of employees and motivation systems satisfactory to the doctors and nurses as well as the management is not an easy task. This is related to the linear, strongly hierarchic organizational structure of the hospital where, in numerous cases, a „dualism of competences” exists (JASIŃSKA 2003) and also as a result of the specific role of doctors in the institution. Considering their specialist knowledge and skills, as well as the burden of responsibility, they form strong and influential groups. The professional role of the doctor is one of the three classical professional roles (along with architects and lawyers). It is characterized, among others, by higher prestige in the form of public esteem and a higher level of autonomy in a formal organization, a large need for personal autonomy, status awarded by special scientific commissions, an identification with one’s own role and not the organization, conduct by own standards and code of ethics, a feeling of mental comfort in a decentralized organization, a need for permanent education and the performance of work of a conceptual and intellectual nature (HENZEL-KORZENIOWSKA 2003). To manage doctors in an effective way, an employer should consider their specific professional role based, in most, cases not on issuing orders but on skillful conduct of negotiations to gain support for the implemented projects. The process of human resource management at hospitals is additionally complicated by the fact that increasingly often medical personnel are employed by health care institutions on the basis of a civil-legal agreement. The civil-legal agreement, commonly referred to as „the contract”, specifies the duration and conditions that cannot be unilaterally amended. This causes not only reduced employment of doctors, nurses, midwives and other persons practicing in medical professions as employees but also changes the methods of managing the health care institutions. The employment of contractors on the basis of civil-legal contracts also leads to limitation of the power in a hierarchical work system (KUBOT 2001). Due to the continual changes in the legal regulations governing the operation of health care institutions and the contracting of health services, these institutions have been

forced to undergo frequent transformations. Organization transformation is a process aiming at creating and implementing programs of changes to react to new needs and continue effective operation in a changing environment (ARMSTRONG 2006). Most of these changes are operational and, as opposed to strategic changes, they focus on internal systemic, procedural or structural regulations with almost immediate effect on the current work of the personnel. The influence of operational changes, however, may be even more important than that of a wide strategic change and, hence, it should be treated with significant care (ARMSTRONG 2006, KASSEAN, JAGOO 2005). Almost any change in the organization involves the resistance of employees (ASH 2000). Among the major reasons for this situation, the following should be mentioned (ARMSTRONG 2006, KASSEAN, JAGOO 2005, WEST 1998, BAULCOMB 2003): shock caused by the novelty, economic concerns, inconvenience, uncertainty, risk to interpersonal relations, risk to status and skills, concerns related to competences. Preventing or mitigating the build-up of resistance to change among the employees should focus on actively involving them in the processes of change and in-depth discussion of the consequences of the new activities. Achievement of durable changes is not easy and their potential depends highly on how the implemented changes influence the personnel and their perceptions of the changes (HAYLLAR 1995). This gives personnel the opportunity to express their own fears and concerns related to the new situation as well as the feeling of real influence on the shape and scope of implemented changes. The subject literature identifies a number of change implementation models, including the Lewin model (LEWIN 1951), the Beckhard model (BECKHARD, HARRIS 1987), the Thurley model and the Quinn model (BRISSON-BANKS 2010). These models describe the activities that should be undertaken before commencement of change implementation, during the process and after completion – focusing on the role of the employees in the activities related to the transformation. In the subject literature, numerous principles of effective change implementation to minimize the risk of project failure are presented. The following changes should be listed among the major changes required (PENC 2007, KASSEAN, JAGOO 2005): dissemination of the opinion on inevitability of changes, creating and popularizing a vision of the future organization development, presenting real benefits to the enterprise and the employees resulting from the projected change, accurate preparation of the preconditions and stages of change implementation, involving authoritative and trusted employees in popularization of the change, creating a work atmosphere favorable for contacts among employees, openness and mutual trust as well as exchange of information, delegation of authority and responsibility, establishing the adequate motivation system.

## Methodology of studies

As indicated by the research conducted by WEST (1998), readiness for change may differ between different professional groups. That is why, for the purpose of conducting the analysis of attitudes and behaviors of middle management under conditions of changes related implementation of budgeting survey questionnaire was targeted at the heads of the departments, department head nurses and managers of divisions at the entities *A, B, C* and *D*. The questionnaire contained questions concerning the following issues:

- evaluation of conditions for implementation of changes related to budgeting in the hospital and influence of the top management and employees on that process,
- attitudes and behaviors of employees of the subject hospitals towards implementation and operation of budgeting,
- effects of the implemented changes,
- threats resulting from the implemented changes.

The number of employees that returned the correctly completed survey questionnaires and their percentage share in the analyzed professional groups is presented in Table 1.

Number of employees at the surveyed hospitals

Table 1

Staff Hospital	Heads of departments (P)		Department head nurses (N)		Managers of divisions (M)		Total	
	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	<i>N</i>	%
<i>A</i>	8	48.65	14	100	9	95.52	31	81.39
<i>B</i>	6	37.25	16	76.00	6	85.62	28	66.29
<i>C</i>	12	60.00	15	82.35	8	79.52	35	73.86
<i>D</i>	5	29.25	13	76.25	4	100.00	22	68.50
Total	31	–	58	–	27	–	116	–

*N, n* – number of employees,

% – percent of the professional group

Source: own work

The results of the initial surveys were input and grouped in an EXCEL 97 spreadsheet and were then statistically processed using the Statistica PL software package. The questionnaire questions to the middle management were of a closed type. The respondents were asked to present their attitudes to the options of responses within the limits of individual issues by allocating to them the scores from 1 to 5 according to the scale defined as follows:

- 1 – I strongly disagree,
- 2 – I disagree,

- 3 – hard to say,
- 4 – I agree,
- 5 – I strongly agree.

The results of studies were tabulated considering the hospital type and the employee groups, which were marked as:

- P – Heads of Departments,
- N – Department Head Nurses,
- M – Division Managers.

## **Results and discussion**

The budgeting system allocates entirely new roles for doctors, department head nurses and division managers. Although they are not burdened with the responsibility for elaborating the budget plans, they are required to implement them. Under conditions of limited funds, they must endeavor to decrease the level of costs in the individual organizational units.

Doctors, who on one hand decide the health and life of the patients by selecting treatment methods and, on the other hand, must consider the economic consequences of their decisions, are in a particularly difficult situation. Possessing a wide range of autonomy in deciding the treatment procedure and observing the Code of Ethics of Medical Professions, in particular article 11 which states: „a doctor should attempt to perform professionally under conditions that assure appropriate quality of care for the patient”, they are at the same time required to achieve the financial targets determined by the top management. Thus, considering the independence and authority of doctors in the process of treatment, as well as minimizing the conflict between the roles of the doctor and the manager, has become one of the major challenges for the top management in implementing changes in budgeting in hospitals. Wider research on the role of the middle level managers in managing a hospital was conducted by TIMMRECK (2000). The conflicts appearing between the doctor and the manager can be of two types:

- individual conflicts (internal) appearing when the doctor simultaneously holds a managerial position (hospital manager, department head),
- social conflicts appearing between doctors and managers who are not always doctors.

The change implementation process was evaluated on the basis of the Lewin model, considering three basic stages in overcoming the resistance of employees against the implemented changes:

- „unfreeze”- achieving a situation that the employees consider the implemented change necessary and acceptable for all,

– „move” – the employees should assume new attitudes through the process of identification and internalization.

– „refreeze” – establishing new and required pattern of behaviors (O’NEILL 1990, LEVASSEUR 2001, SCHEIN 1995).

In first stage, a familiar process is to be „unfrozen”. The second step („Move”) aims at strengthening all changing forces in order for the change to actually take place. The final step reinforces the maintenance of the newly achieved status quo (SUC et al. 2009). Acceptance of implemented changes by the medical personnel is particularly important as numerous studies have indicated a relationship between the satisfaction with the work done and the quality of services provided (KROGSTAD et al. 2006). Table 2 presents an evaluation of the change implementation process related to the budgeting system. It contains the opinions of the medical staff (doctors, nurses) and administrative staff (division managers) of the hospitals.

Table 2  
Necessity of implementing budgeting-related changes in hospitals according to mid-level management (from 1 to 5)

The budgeting system is:	Staff Hospital	P	N	M	Total
Needed	A	4.45	4.24	4.70	4.37
	B	4.24	4.20	4.35	4.25
	C	4.24	4.18	3.98	4.17
	D	4.59	4.05	4.24	4.18
	total	4.30	4.17	4.38	4.24
Known to all the employees	A	3.36	3.53	3.71	3.54
	B	2.62	2.65	3.20	2.84
	C	2.00	2.55	2.65	2.41
	D	3.18	1.93	2.83	2.31
	total	2.65	2.68	3.25	2.79
Accepted by all employees	A	3.00	2.47	2.92	2.73
	B	2.44	2.33	2.70	2.51
	C	2.00	2.49	2.12	2.30
	D	3.18	1.93	2.83	2.31
	total	2.53	2.39	2.76	2.50
Implemented effectively	A	3.82	3.26	3.49	3.42
	B	2.92	2.61	3.00	2.84
	C	2.83	2.55	2.39	2.62
	D	2.12	2.12	2.47	2.18
	total	2.95	2.65	3.04	2.80

O – heads of departments, P – department head nurses, K – division managers, D – top management  
Source: own work.

The mid-level management staff of three entities (B, C and D) felt that this method of management in hospitals is not known to all the employees. Only in entity A is the knowledge of budgeting principles among the employees at the

moderate level. Since in every entity at least one training program in budgeting was provided, it may indicate either the low effectiveness of the training provided or an inappropriate flow of information between mid-level management and subordinate employees.

Lack of knowledge of budgeting principles is linked directly to a lack of acceptance of changes found in all the entities and was the strongest in hospital *C*. Considering the budgeting implementation effectiveness (total average 2.80), measured by knowledge of the system principles and level of its acceptance in the entity, only hospital *A* (which is significantly outstanding from the others) achieved a positive rating. The implementation activities were ranked the worst at hospital *D*. It is worth highlighting that the opinions of mid-level management concerning the level of budgeting system knowledge and acceptance are similar to those of the top management in the hospitals covered by the study. Only in entity *A* was budgeting considered implemented effectively, which is probably a consequence of entrusting the development and implementation of the system to a consulting company. The analysis conducted showed that the „unfreeze” stage had not been completed successfully. The belief of the mid-level management in the need for implementation of budgeting was not established and requires strengthening. Additionally, insufficient level of knowledge and approval of the implemented changes by employees was recorded. The direct interviews conducted with the mid-level management indicated that the situation was caused by a too small number of training programs provided during change implementation, excessively frequent modifications of the solutions concerning, above all, the principles of cost accounting for the purpose of budgeting and the scope of responsibility of the mid-level management. The unsatisfactory level of the „unfreeze” process effectiveness resulted in the failure in the next stage of „implementing the changes” involving development of the required attitudes among the participants in the budgeting process (Tab. 3).

The attitudes of employees necessary to achieve satisfactory effectiveness of budgeting-related changes have not been fully established in any of the hospitals. Insufficient observation of budget discipline (average 3.65) and poor adherence to the accepted schedules and timelines (average 3.63) indicate that the process of identification as a factor necessary for effective implementation of the changes achieved a very low level of advancement in all the hospitals. This is confirmed by the high level of work autonomy of the medical personnel – which is fully justified in the medical activities of the doctors but not in other work areas. This is indicated, among others, by the fact that in none of the hospitals is the medical staff actually held responsible for unjustified budgets expenses. Lack of identification of the mid-level management with the goals of the top management makes initiation of the internalization process impossible,

Table 3

Attitudes of the budgeting participants in hospitals in the opinion of mid-level management  
(from 1 to 5)

Item	Staff Hospital	P	N	M	Total
Work of the entire team, openness and partner relations in solving problems	A	4.42	3.60	4.64	4.08
	B	4.20	3.41	4.24	3.83
	C	4.01	3.74	3.98	3.85
	D	4.24	2.70	4.59	3.31
	total	4.18	3.39	4.45	3.81
Personal responsibility for performance of tasks	A	4.06	4.13	4.51	4.20
	B	3.87	3.92	4.45	4.01
	C	3.53	4.11	4.51	4.00
	D	4.59	3.37	4.59	3.81
	total	3.89	3.90	4.48	4.02
Maintaining budget discipline in managing budget funds	A	3.53	3.18	3.85	3.51
	B	3.68	3.48	3.86	3.67
	C	3.41	3.99	3.45	3.74
	D	4.59	3.18	4.59	3.68
	total	3.65	3.55	3.89	3.65
Adherence to accepted schedules and timelines	A	3.53	3.50	3.98	3.69
	B	3.56	3.58	3.72	3.60
	C	3.30	3.81	2.92	3.53
	D	4.24	3.37	4.24	3.68
	total	3.53	3.61	3.74	3.63

Source: own work.

which is confirmed by the low level of personal responsibility for performance of budget tasks (average 4.02) and moderate collaboration of the team in solving the problems resulting from the new system (average 3.81). However, as demonstrated by the research of L.J. Stewart, well-organized employee teams are one of the basic factors for achievement of satisfactory financial results from medical activities (STEWART 2002). A significant strengthening of the identification and internalization processes can be achieved through positive effects of implemented changes also being noticed by the mid-level management.

Table 4 presents the opinions of the mid-level and top managements of the hospitals studied concerning the influence of the implemented changes on managing human resources in the hospitals.

According to the respondents, budgeting has a positive influence on improvement of collaboration between individual organizational units (total average 4.31). This is manifested in better work organization of individual laboratories and operation theaters, resulting in more effective use of the available resources. The influence of budgeting on the level of motivation of employees (the average of responses was 4.19) was slightly less perceptible.

Table 4  
Effects of the changes implemented in the hospitals according to the opinions of the mid-level management (from 1 to 5)

Effect	Staff Hospital	P	N	M	Total
Improved cooperation of organizational units	A	3.89	4.85	4.51	4.53
	B	4.23	4.35	4.22	4.29
	C	4.47	4.11	3.45	4.13
	D	4.24	4.24	4.59	4.30
	total	4.24	4.38	4.24	4.31
Better use of human resources	A	4.03	3.45	3.49	3.55
	B	3.54	3.22	3.70	3.41
	C	3.30	3.12	3.98	3.29
	D	3.53	3.18	3.89	3.37
	total	3.53	3.23	3.68	3.40
Improved labor productivity at the hospital	A	3.82	3.18	3.18	3.31
	B	3.55	3.16	3.56	3.37
	C	3.41	3.12	3.98	3.32
	D	3.53	3.29	4.24	3.49
	total	3.53	3.18	3.60	3.35
Higher motivation for performance of tasks appointed by the top management	A	3.00	4.32	3.98	3.91
	B	4.02	4.36	3.94	4.18
	C	4.47	4.43	3.71	4.35
	D	4.59	4.24	4.24	4.30
	total	4.01	4.35	3.95	4.19
Increasing the responsibility of employees	A	4.24	3.71	4.09	3.87
	B	3.70	3.60	3.72	3.67
	C	3.53	3.49	3.18	3.47
	D	3.89	3.56	3.53	3.61
	total	3.71	3.58	3.74	3.65

Source: own work.

No significant diversification of responses was recorded either among the hospitals covered or within the individual groups of employees.

The analysis showed that, according to the management staff, budgeting had a positive influence on human resource management at hospital (the total average of 3.29–3.55). There are no significant differences of opinions in this area between the hospitals and between the groups of employees. Additionally, a small influence of budgeting on the scope of responsibilities of employees was recorded. Perceptible progress in that area has been noted, e.g. a more thorough description of the patient treatment process to obtain funds, using the results of tests ordered by the family doctor before admission to the department instead of repeating them at the hospital, and more effective use of medical equipment.

## Conclusion

The analysis showed that mid-level management does not see the effects of changes related to budgeting in a similar way as top management. This may cause significant hindrances to the process of employees adopting attitudes and behaviors required by the top management. The diversity of opinions in this area may result from:

- not specifying in detail the targets of budgeting by the top management or not informing the mid-level management about them,
- lack of set measures for evaluation of the achievement of budget tasks,
- aiming at achievement of the assumed targets by means of methods not accepted by the employees.

Undertaking any changes at a hospital should be based on modification of the behavior of people by focusing on, *inter alia*, their knowledge, skills and expectations. The analysis of attitudes and behaviors of mid-level management under conditions of budgeting implementation conducted according to the Lewin model showed that in none of the analyzed entities had implementation of the three stages of the model been completed successfully. The studies confirmed that entrusting budgeting implementation to a consulting company has a positive influence on implementation of the first stage – „unfreeze”, i.e. the preparation of the employees for the changes. It can also be concluded that the attitude of the mid-level management does not depend on the duration of budgeting operations, because no higher level of acceptance or more favorable behavior was observed among the employees of the hospital in which budgeting had been implemented the earliest.

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**UNINTENDED CONSEQUENCES. THE FINANCIAL  
ASSUMPTIONS AND ECONOMIC THEORY  
OF OBAMACARE: THE PATIENT PROTECTION  
AND AFFORDABLE CARE ACT**

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**Key words:** Affordable Care Act, Obamacare, lobbyists, healthcare.

**Abstract**

This article examines the Patient Protection and Affordable Care Act (ACA,) often referred to colloquially as Obamacare, from a financial and economic perspective in order to analyze the potential efficacy of the system. Research was gathered pertaining to the stated objectives of the program, and economic theory was applied in order to reveal if the aims of the program are congruent with economic theory. It was found that the authors of the ACA did not anticipate or under-anticipated several economic effects of the legislation, which will hamper the implementation and effectiveness of the program. Furthermore, the economic theories employed by the Obama administration relied heavily upon classical economic theory, with little or no attention given to Transaction Cost Economics (TCE). Moreover, the law itself is overly complex and controversial due to a myriad of provisions added through the intercession of lobbyists from the healthcare, insurance and special interest sectors. The end result is that Americans may obtain a slightly improved healthcare system, but the United States will most likely still lag behind the rest of the industrialized world in many key health statistics.

**NIEZAMIERZONE KONSEKWENCJE. ZAŁOŻENIA FINANSOWE I TEORIA  
EKONOMICZNA AKTU OCHRONY ZDROWIA PACJENTÓW (ACA) – PLANU OBAMY**

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**Słowa kluczowe:** akt ochrony zdrowia pacjentów, plan Obamy, lobbyści, ochrona zdrowia.

## Abstrakt

W artykule podjęto próbę oceny aktu ochrony zdrowia pacjentów (ACA), popularnie zwanym planem Obamy, pod kątem finansowym i ekonomicznym, a także z uwzględnieniem jego efektywności. Zwrócono uwagę na możliwości skorzystania z niego przez społeczeństwo amerykańskie. W części teoretycznej odniesiono się do głównych teorii ekonomicznych, zwłaszcza teorii kosztów transakcyjnych. W części badawczej wykorzystano oficjalne dane statystyczne. Podkreślono także znaczenie i działanie towarzystw ubezpieczeniowych, lobbystów branży ochrony zdrowia. Ich postępowanie rzutuje na proces legislacyjny. Mimo że akt ochrony zdrowia pacjentów należy uznać za krok w dobrym kierunku, to i tak USA pozostają w zakresie ochrony zdrowia swoich obywateli daleko w tyle w stosunku do innych krajów rozwiniętych gospodarczo.

## Introduction

The aim of this article is to analyze the efficacy of the Affordable Care Act in order to predict if the stated aims of the program are likely to be realized or not, and why. The Patient Protection and Affordable Care Act, often referred to as Obamacare, was enacted in March of 2010 in an effort to increase the health insurance coverage of American citizens. In 2010, only 83 percent of Americans were covered by health insurance, leaving the remaining 17 percent predominantly reliant upon emergency room care if they were in need of medical treatment (CBO 2010). However, in the United States it is the uninsured patient's responsibility to pay for all forms of treatment, including Emergency care. This led to 62.1 percent of American bankruptcies being due to unpaid medical bills (HIMMELSTEIN 2009) and 6 percent of total hospital costs being attributable to uncompensated care; where the patient could not or would not pay for treatment (AHA 2011). Due to these alarming statistics, the then presidential candidate Barack Obama, campaigned on a platform of universal healthcare for all legal residents of the United States.

The Affordable Care Act is a ten thousand page document divided into ten main headings called „titles”. These are further divided into subtitles, sections and provisions (PPACA, 2010). Much of the major newsworthy provisions are contained in the first title, which is entitled „Quality, affordable health care for all Americans”, and attempts to establish increased healthcare coverage. The second title deals with public health insurance programs for residents at or below the federal poverty line (FPL), children of families at or below FPL, and the elderly, which are known as Medicaid, CHIP (Children's Insurance Plan) and Medicare, respectively. The third and fourth titles are concerned with increasing the quality and efficiency of healthcare, preventing chronic disease, and improving public health. The fifth title specifically covers methods of increasing the number of healthcare workers, while the sixth title concerns the transparency and integrity of the system. The seventh title improves access to innovative medical technologies, including discounts on pharmaceuticals and

promoting competition in the biologics sector. Title eight establishes a voluntary disability insurance program called CLASS Act, title nine is a list of revenue provisions which include new taxes on both firms and individuals, while the tenth title continues health coverage for American Indians. For an excellent summary of the ACA, please refer to the article „US Health Care Reform” by Harrington which concisely summarizes the majority of the provisions in a six page article (HARRINGTON 2010).

From the beginning, it is possible to see misrepresentation in the naming of the titles of the ACA. For example, the very first title of the ACA is named „Quality, affordable health care for all Americans”; however, the Obama administration themselves have stated that their goal is to see an increase from 83% of Americans insured to 94% of Americans insured (CBO 2010). That would still leave 6% of 300 million Americans uninsured; which calculates to 18 million uninsured American citizens. 18 million uninsured is far from „Healthcare for all Americans”. Opponents of the bill claim that 94% is an unrealistically optimistic goal, because it assumes that none of the current 83% will become uninsured. Since the federal government has set strict standards that insurance providers must follow, the insurance industry has responded by canceling or changing the coverage of many policyholders before the ACA comes into effect (WND 2013). Therefore a percentage of the original 83% who were previously insured, have now become uninsured, which will make achieving 94% difficult. Since literally every other industrialized country has nearly full coverage of its citizens, one may wonder why the United States has a stated goal of only covering 94% of its citizens with health insurance. The answer may be that the healthcare and insurance sector has spent billions of dollars over the last 15 years on lobbying efforts to introduce legislation to protect and enrich their industries (opensecrets.org 2014), and nationalizing the healthcare industry would simply put those sectors under direct government control; thereby destroying any profit based business model.

## **A Short History of Healthcare in the United States**

Healthcare in America was mainly based upon the single payer system until the nineteen eighties. The single payer system meant that individuals directly paid the doctor or hospital for services rendered. As the price of medical care increased, medical insurance plans became popular, but were unregulated. In 1986, the United States Congress passed the COBRA act which allows employees to continue their medical coverage for up to eighteen months, even if they would normally have lost their coverage after a job loss

or reduction in working hours, as long as the employee paid the insurance premiums. A portion of the COBRA act that would make a serious impact on American healthcare was the Emergency Medical Treatment and Active Labor Act (EMTALA). EMTALA was an unfunded mandate of the federal government which required nearly every emergency room in the United States to treat patients regardless of their ability to pay or their legal status as a resident of the United States (EMTALA 1986). Therefore, the emergency room became the „de facto national health care policy for the uninsured” as well as for those residing illegally in the country (ACEP 2014). Since the federal government did not provide any funding for EMTALA, either the state or private hospitals were forced to bear the cost. This led to the closure of many emergency rooms, and is one of the concerns that the ACA attempts to solve.

### **The Lack of a Nationalized Healthcare System for the United States Due to Lobbying Efforts**

The original concept of a nationalized healthcare system was originally bipartisan, but has become strongly opposed by the Republican (center-right) party since the election of Barack Obama who is from the Democrat (center-left) party. Republican presidential candidate Mitt Romney and the Democratic president Barack Obama both agreed in principal to a universal healthcare system (HARRINGTON 2010). Although each industrialized country in the world has variation in the quality of their national healthcare system, each of them has a healthcare system that provides medical insurance for every legal resident of that country; except for the United States. Therefore, one would assume that the United States would simply modify and implement a system similar to that of another country; such as Canada, for example. Unfortunately, the healthcare sector and the insurance sector are two of the three largest lobbying groups in the United States, and they have spent nearly 12 billion dollars on „lobbying” in Washington DC since 1998 (opensecrets.org 2014). Nationalizing the US healthcare system so that it resembles a typical system of the European Union or Canada would have required the United States government to take control of both the healthcare industry as well as the medical insurance sector. Since both of those industries are highly profitable, those industries defended their interests through lobbying (see Fig. 1 and Fig. 2), spending 350 million dollars in 1998 and peaking at 900 million dollars in 2009; the year before the ACA was signed into law (opensecrets.org 2014).

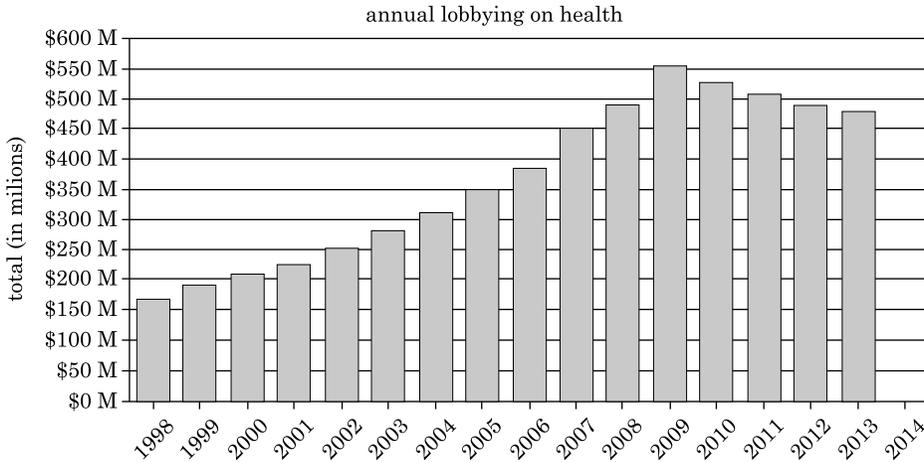


Fig. 1. A breakdown of yearly spending by the healthcare industry between 1998 and 2013 in the lobbying of elected officials

Source: opensecrets.org

Spending peaks in 2009, the same year the public option was deleted from the senate version of the ACA; thereby eliminating competition from a government healthcare insurance program.

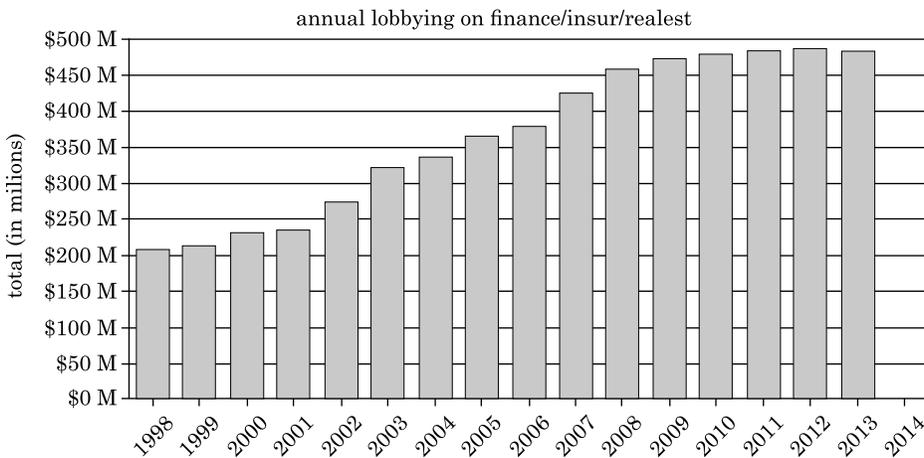


Fig. 2. A breakdown of yearly spending by the Insurance industry between 1998 and 2013 in the lobbying of elected officials

Source: opensecrets.org

Spending peaks and begins to level in 2009, the same year the public option was deleted from the senate version of the ACA; thereby eliminating competition from a government healthcare insurance program. The real estate sector

and non-health related insurance concerns are also included in these statistics, which may skew results.

According to utility theory, those two sectors must have felt that they received a service worth at least 12 billion dollars over the last 15 years. It is logical to assume that the service they received was the preservation of their business activities, and several provisions that will either increase their revenue or at least offset any profit loss that they might incur under the implementation of the ACA.

A compromise solution to full nationalization of the American healthcare system was the „public option“. The public option would have established a government run healthcare insurance program that would have been available to consumers. In essence, the public option would not have nationalized the healthcare system, but would have given consumers a choice between government healthcare or private insurance options (GAUVEY 2011). The public option was included in all original versions of the ACA, was included in the legislation passed by the House of Representatives (lower house), but was completely dropped by the senate finance committee (CNN 2009). The public option would have been completely paid for by premiums, and would not have cost the government any additional outlays, other than money to start the program (REICH 2009). Therefore, it is not logical that the Senate Finance committee would object to the public option on financial grounds. The senate finance committee is much smaller than the full senate. Is it possible that lobbyists influenced this committee to eliminate the public option? There would be few other reasons, if any, to exclude the public option except under the influence of lobbyists. It would also be in the favor of the private healthcare insurance sector to eliminate a government program that would be in direct competition.

There are many controversial provisions in the ACA, which can be traced back to the healthcare industry and special interest groups who paid to see their interests represented in the ACA through lobbying. For example, the ACA mandates completely free birth control to all insured women in the United States regardless of income, but other important medications (including ones that are medically necessary) require a copayment from the patient (BLANEY 2012). All employers with 50 or more full-time employees are required to provide this insurance. From basic economics, if a regular commodity becomes less expensive, then consumers will use more of it. Therefore, the pharmaceutical industry stands to earn more from increased sales of birth control pills and abortion inducing drugs (morning after pill), while manufacturers will earn more from increased sales of diaphragms and intrauterine devices. Voluntary sterilization is also free to consumers, and will increase revenues to clinics who provide this service (PPACA 2010).

Another controversial aspect of the ACA is the abortion issue. Abortion as a means of birth control is legal and used with great frequency in the United States. Between 800 thousand to 1.2 million abortions occur annually in the US, with less than 3% being medically necessary to protect a woman's health (CDC 2013). According to the Guttmacher institute, the average price of a first trimester abortion in the US is 468 dollars (GUTTMACHER 2001). Therefore the abortion industry in the United States is significant. The largest provider of abortions in the United States is Planned Parenthood, who also collects around 500 million dollars per year in state and local government funding (Planned Parenthood 2013). According to the Hyde amendment, the United States federal government is not allowed to provide any money for abortions. However, a controversial provision in the ACA allows a full government subsidy of insurance plans for any qualifying person at or below 133% of FPL, and limited subsidies for those up to 400% of FPL. The majority of those insurance plans will cover voluntary abortion services, thereby allowing planned parenthood to collect federal money for abortions by circumventing the Hyde amendment (Foxnews 2014). Planned Parenthood spends on average 1.5 million dollars annually in lobbying efforts (opensecrets.org 2014).

A solid argument can be made that lobbying groups have not only repressed the formation of a nationalized universal healthcare system in the United States, but they have gone so far as to repress competition from the public option. Furthermore, they have also used their lobbying money to introduce legislation favorable to their business activities, and it seems that more attention has been paid to controversial legislation benefiting lobbyists than to a thorough economic analysis of the provisions. The next section analyzes some of the effects of the ACA that will have or are having unintended consequences.

### **Flaws in the Economic Theory of the ACA**

The first title of the ACA increases coverage by specifically banning limits on insurance usage. There are no limits on the number of doctor visits or emergency room visits, and there are no monetary limits either (Obamacarefacts 2010). The assumption was that as patients visited their primary physicians more often, there would be a decrease in the number of emergency room visits. The assumption being that patients who regularly see a physician will be less likely to need emergency services. The Office of the Actuary estimated that there would be an increased cost of 311 billion dollars over 10 years due to increased visits to primary physicians, but they assumed a decrease in Emergency room visits would help to offset this cost (Office of the Actuary 2010). Unfortunately, since there are no limits, basic economic theory

suggests that patients will use all available services to their maximum benefit, including emergency services. A study published in the journal *Science*, confirms this. Researchers recorded a 40% increase in emergency visits as well as the expected increase in primary care physician visits, yet key health statistics remained unchanged (TAUBMAN 2014). Patients used more resources, but were not significantly any healthier.

Emergency room care in the United States is not funded directly by the federal government. Instead, responsibility for the funding falls upon the Medicaid program along with state and local governments or upon a private hospital (EMTALA 1986). Since the uninsured and illegal residents of the United States rely heavily upon emergency rooms for primary care, it was assumed that as more Americans became insured, there would be fewer emergency room visits and lower costs. Therefore, funding to Medicaid was cut by 22 billion dollars (HAMILTON 2013). However, the United States has approximately 11.7 million illegal residents who are not allowed to participate in the ACA, and will continue to use emergency rooms as primary care providers (NILC 2014). The continued pressure from illegal residents, plus funding cuts to Medicaid will strain emergency rooms tremendously. If the results from the studies of Taubman, et.al. also hold true with a 40% increase in insured patients visiting emergency rooms' the results would most likely be the closure of more emergency rooms and a decreased standard of care for those who require emergency treatment (TAUBMAN 2014).

Other serious flaws in the basic economic theory of the ACA have emerged. The ACA requires all firms with 50 or more full-time employees to provide healthcare coverage, with full-time being defined as 30 hours or more of work per week. This is termed the „employer mandate” (HARRINGTON 2010). The result is that smaller firms have an incentive to hire 49 full-time employees or less, and hire more part-time employees in an effort to avoid purchasing health insurance for their workers or pay large fines. According to a 2013 Gallop poll of small businesses, 40% have frozen hiring, 50% plan to replace full-time workers with part-time workers, and 24% will cut staff to below 50 full-time employees (ANDERSON 2013). There seems to have been no provision given for addressing this issue in the ACA, and the result will most likely be an increase in unemployment and / or underemployment. The Obama administration has been continually postponing the implementation of this provision, with critics suspecting that implementation will be delayed so as not to interfere with American election results in 2016 (WSJ 2014).

Nearly all issues concerning Transactional Cost Economics (TCE) have been disregarded in the ACA, with only a focus on classical economics being considered. For example, since the ACA limits healthcare insurance compensation to healthcare workers, there will be fewer healthcare workers entering the

profession. Title five addresses this problem specifically by introducing scholarships, grants and loans to students who enter the healthcare profession (PPACA 2010). However, in the United States students must first earn a typically five year bachelor's degree with many scientific courses, before they may apply to a four year medical school. Therefore, a physician in the United States will have spent nine years as a University student before becoming an entry level doctor. After the completion of medical school, many years are required for internships and specialization. When it was possible for physicians to become extremely wealthy, the time and expense could be justified; but this is no longer the case. The time factor is a type of bargaining transaction cost that the Obama administration has not considered, and may lead to a shortage of physicians even with more financial aid being available (WILLIAMSON 1981).

A key feature of the ACA is an online marketplace where consumers can read the differing coverage options, compare prices, and purchase plans (PPACA 2010). Search and information costs were not considered. In the United States, one in seven Americans cannot read anything more complex than a children's picture book, and can barely understand the warnings on the side of a prescription bottle (PARENTING 2014). A considerable number of these undereducated people would most likely need to purchase health insurance. However, the online marketplace requires consumers to have internet access and be capable of not only reading but critical thinking in order to choose the best option (WILLIAMSON 1981). This transaction cost was completely ignored. The risk of online fraud is a policing and enforcement cost of TCE (WILLIAMSON 1981). It seems that internet security was not considered, and several fake healthcare exchanges have been established so that potential victims will enter their personal information. Other criminals have used calling, faxing, or email in an effort to collect sensitive information all the while claiming they are representatives of the Medicare program for the elderly. There is also the potential for identity theft from workers who have been hired by the ACA program. The California Insurance Commissioner has voiced serious concerns about lax screening of new employees hired by the program (WND 2013).

### **The Canadian Model versus the ACA**

The Canadian government has had full healthcare coverage for all of its legal residents for quite some time. It is a major source of government spending, and something that needs to be managed carefully. For the average well-educated European, it seems incredulous that the United States did not simply modify and implement something very similar to the Canadian model. However, the American media has consistently criticized the Canadian model

for being inefficient and „socialist”, often citing a marginal decrease in healthcare efficiency of 0.7% over the last 20 years (SHUFELT 2012). The United States has acted isolationist in its healthcare reform, with very little word in the American media that every other industrialized country has a nationalized healthcare system that delivers better healthcare statistics in most areas. The United States does have one advantage over countries with nationalized healthcare. In the United States, patients who are covered by insurance wait on average a very short time for a specialist or a referral appointment. In countries such as Poland, England or Canada, patients must wait much longer for this type of care (OECD 2013). On the other hand, the 17% of uninsured Americans, must depend upon emergency room services and have no right to anything except basic care. According to the OECD, the United States ranks extremely low in many key health statistics. The most striking statistic is the infant mortality rate. The United States has the highest infant mortality rate in the industrialized world, with the 24 hour infant mortality rate being 50% higher than all other industrialized countries combined. The reason cited for this statistic is that poor mothers are not receiving enough access to medical care (Savethechildren.org 2013). When compared to Canada, Canadians were healthier than Americans in every key category except cancer prevention and treatment. The United States was below the OECD average in life expectancy, heart disease mortality, suicide mortality, infant mortality, low birth weight infants and diabetes. Curiously, Americans had the world’s highest rate of people self-reporting that they are in good health (OECD 2013).

## **Discussion**

It has been well-established that the United States is in need of urgent medical care reform, since, according to the OECD, most of their key healthcare statistics are below the OECD average. This would be shocking for any industrialized nation, but when these statistics belong to the world’s wealthiest country, it is tragic. Unfortunately, the ACA is not the complete solution to healthcare. Perhaps it is better than the old system which left 17% of the population dependent upon emergency care with bankruptcy often the only answer to resolving the debt burden from unpaid medical bills. However, the United States could have done much better if they had simply modified and implemented a system similar to those of Canada or the European Union.

Unfortunately, the very large healthcare and medical insurance sectors have spent billions of dollars to stop any talk of a nationalized healthcare system, and have even stopped the entry of a competing government insurance option. The influx of billions of dollars from a single business sector with the

clearly expressed intent of „influencing” politicians should be considered corruption, but has become institutionalized as „lobbying”. It would be very informative to see exactly how billions of dollars in lobbying money is spent without directly giving cash to politicians, but the author could not find such information. Only from anecdotal evidence while the author lived in the United States, has the author heard of donations to political campaigns through complex channels in order to avoid corruption laws. It would seem that the politicians paid far more attention to provisions favoring lobbying groups, than they did to a good solid economic analysis of the ACA. Some aspects of basic economic theory were ignored, such as increased unemployment from the employer mandate and that emergency room visits would increase when they became free of charge. Other aspects were underestimated due to little or no thought being given to Transaction Cost Economics, such as the time required for medical students to become doctors while salaries in the medical profession are falling, the search and information cost of using the online marketplace by undereducated consumers, or enforcement costs such as protecting against identity theft in the on-line marketplace. In general, the ACA was not given a rigorous enough economic analysis. It seems that most analysis focused more on financial aspects in order to prove politically that it was a good program, but little attention was paid to the motivations of consumers. Almost no effort was made to do an analysis of Transaction Cost Economics.

## **Conclusions**

The end result is that the lobbyists had more influence than voters in the ACA. While the American public required meaningful healthcare reform from their government, instead their government drafted legislation based upon the requirements of lobbyists because lobbyists donated billions to the political campaigns of politicians or found other ways to circumvent corruption laws. More focus was placed upon provisions in the ACA that benefited lobbyists, and less focus was given to economic analysis. Almost no focus was given to the most recent trends in economic theory such as Transaction Cost Economics. One is left to wonder if there is anyone in the administration of the ACA who has ever heard the name of Oliver Williamson?

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## GUIDELINES FOR TEXT PREPARATION FOR THE “OLSZTYN ECONOMIC JOURNAL”

The “Olsztyn Economic Journal” (ISSN 1897–2721) is a scientific magazine published in English at the Faculty of Economic Sciences of the University of Warmia and Mazury in Olsztyn. During the years 2007–2012 the magazine was published semi-annually and as of 2013 it was transformed into a quarterly. It publishes scientific papers of methodical, review and empirical nature in economic sciences. The Olsztyn Economic Journal is published by the University of Warmia and Mazury in Olsztyn Publishing House. The printed format is the primary form of the magazine. Additionally, all numbers of the magazine are available also in the electronic format on the website: <http://www.uwm.edu.pl/wne/oj.php>, <http://wydawnictwo.uwm.edu.pl> (subpage Czytelnia).

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- 4) There are no:
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