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FOR Communication 31/2019: How Seriously Does the Government Treat Taxpayers and the Expenditure Rule?

- After the election campaign, the Law and Justice Party stopped pretending that the 2020 budget would be deficit-free, starting a discussion on its amendment. The implementation of the new election promises will be difficult to reconcile with the existing spending rule, but there have already been voices offering it to be softened, such as Prof. Łukasz Hardt of the Monetary Policy Council.
- Manipulating the expenditure rule is a dangerous idea that undermines its meaning. Fiscal rules are supposed to limit the arbitrariness of politicians by preventing them from excessive growth in spending and debt, thus building the credibility of state policy. In the eyes of investors. A rule that is changed in a situation where it prevents politicians from spending more, ceases to function reliably.

Subsequent government documents and statements of politicians from the Law and Justice party point to a growing deficit of the public finance sector in 2020. According to the Multiannual Financial Plan of April 2019, after deducting one-off revenues, it was supposed to amount to 0.8% of GDP. In the draft state budget of September 2019, the deficit of the entire public finance sector was to reach 1.3% of GDP (also excluding one-off revenues), and public boasts about the "budget without a deficit" were an accounting trick - they concerned only the state budget and not the entire public finance sector (i.e. without the Social Insurance Institution (ZUS), the National Health Fund (NFZ) and local governments) and were based on one-off revenues from the taxation of OFE [Open Retirement Fund] assets. Already after the publication of the draft, the government additionally announced the payment of the 13th pension in 2020 and the reduction of social security contributions for the self-employed, which in total increases the deficit by several billion zlotys. Moreover, it is not clear whether the limit of 30 times the amount of ZUS contributions, which was to bring over PLN 5 billion of income already included in the draft budget for 2020, should be abolished.

New expenditures not only increase the deficit, but are also increasingly difficult to harmonize with the expenditure rule. The purpose of the expenditure rule is to limit the increase in

expenditure in a situation of existing deficit and high state debt, as well as to force politicians to look for new ideas other than the increase in debt to finance new ideas. In practice, this means that when introducing new expenditures, new revenues or savings on the expenditure side should be indicated at the same time. If the government does not want to limit expenditure, it will have to indicate new tax revenues or break the rule. Both solutions are bad:

- The introduction of new taxes two months before the end of the year brings chaos in the plans of enterprises; it is particularly shocking that the new ideas (e.g. the "congestion tax" announced in the media on 29 October this year) are discussed by the Minister of Entrepreneurship and Technology, one of the tasks of which is to create predictable conditions for the development of companies. The surprise-tax adopted in barely two months is an example of pathology, which the ministry should particularly fight.
- Manipulating the rule would undermine its meaning. At the beginning of the previous parliamentary term, the Law and Justice party already weakened the rule, turning inflation into an inflation target for the National Bank of Poland. Further deeper changes will encourage successive governments to further weaken the rule instead of controlling expenditure. Then the rule would cease to ensure the long-term stability of public finances, and the Polish economic policy would lose credibility in the eyes of domestic and foreign investors.

Instead of bypassing the rule and increasing the debt or reaching into the taxpayer's pockets, the Law and Justice party should verify the economic sense of its own election promises, while at the same time looking for savings on the expenditure side.

Forum Obywatelskiego Rozwoju [Civil Development Forum]

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