

## THE POLITICAL FUNCTION OF PUBLIC FINANCE. THE POLAND EXAMPLE

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**Abstract:** The article concerns the function of public finance. The authors attempt to provide an answer as to whether, in addition to the classic functions of public finance – the allocative, redistributive and stabilizing functions – one can arrive at a claim that public finance also plays a political function. These reflections are based on the course of 2023 parliamentary elections in Poland and the analysis of election programs presented by the individual political parties. Extracted from the programs were all the promises which could impact the redistribution of public goods and services and would involve their public funding, as well as those which could impact the tax revenues of the state. The analysis leads to the conclusions that the scope of public spending and the degree of fiscalism were one of the main factors encouraging the voters to vote for a particular political party. Since election promises have a major impact on the election results and they can be turned into legal regulations impacting public budgets, the claim concerning the political function of public finance is justified.

**Keywords:** role of public finance, parliamentary elections, political role of finance

### 1 Introduction

Public finance is a fundamental branch of the economy which focuses on understanding how the policy of the government impacts the economy, in particular through the allocation and use of monetary resources in order to achieve social goals, such as economic stability, economic growth and security. This complex field includes several key theoretical principles and models which explain the nature of public revenue, spending, budgeting and the general impact of governments' actions on the economic dynamics. One of these theories is the theory of functions of public finance – functions understood as the execution of tasks in order to achieve the desired results. The groundwork for a discussion on this subject was laid by Richard Musgrave who, in "The Theory of Public Finance: A Study in Public Economy", a book published in 1959, defined the three basic functions of public finance (Musgrave, 1959). The first one, called allocation, concerns the role of the government in the provision of goods and public services. Musgrave pointed out that the provision of goods and services is a process shared between private and public entities. Private entities, however, are often incapable of providing certain goods at an optimum level, since they cannot or would find it difficult to charge consumers directly for its provision. The government's duty, therefore, is to ensure public goods, such as national defense, transportation, public parks and street lighting. These tasks are to be financed through taxes. The second function – the redistributive one, assumes that the government redistributes revenue in order to ensure equal distribution of resources. Musgrave claimed that market economy does not always lead to a desired distribution of revenue and wealth among the people. Therefore, through taxes and social welfare programs, the government can redistribute resources from the richer to the poorer, aiming at minimizing poverty and inequality and ensuring social security. Redistribution can be implemented through tax redistribution – progressive taxation of high income groups and ensuring subsidies for low-income groups, the use of progressive taxation to finance programs aimed at low-income groups; combining taxes on goods consumed mainly by high-income groups with subsidies to goods consumed by low-income groups. The third, stabilizing function, concerns the government's role in regulating the general level of economic activity in order to achieve macroeconomic stability. This includes the use of fiscal and monetary policy to control inflation, fight unemployment and stabilize the business cycles in the economy. By adjusting the governmental spending, taxes and money supply, the government can impact economic growth, stabilize prices and strive for balance in the labor market (Musgrave, 1959). These three functions impact one another in many fields, and it is necessary to fully understand them in order to shape economic policy. The allocative and distributive functions are carried out

through fiscal policy, which takes various forms. The stabilizing function is often implemented through the activity of the central bank.

Allocation, distribution and stabilization attributed to public finance by Musgrave have become the foundation of science and discussion about the public finance. The paradigm in the analysis of the relationship between public administration and the market. It has also been the basis for numerous other theories developing the particular elements of functions of public finance and the mechanisms involved. Wallace E. Oates developed studies on the search for optimal income distribution models and the division of fiscal responsibilities between the various levels of public authority, proving that public goods and services should be provided by the government level closest to the citizens (Oates, 1968). Albert Breton argued that distribution and allocation could be more effective in an environment of competition between the entities responsible for them (Breton, 1998). Paul Anthony Samuelson developed a theory of public finance on the basis of allocation and distribution, describing, e.g. the relationship between effectiveness and justice (Samuelson et al., 1998). Many other scholars who have contributed to the development of science of public finance by conducting their research and analyses, did so in the field of the three functions. They also constitute a didactic canon present in academic textbooks for law and economy students. The literature offers an expanded version of the aforementioned functions. Apart from the classic functions of public finance, Stanisław Owsiak also mentions the rescue (remedial) function of public finance. It stems from society's expectations amid economic collapse, financial sector crash or crises emerging from natural causes. One example of its implementation were the actions of the government during the COVID-19 pandemic (Owsiak, 2021). The literature also mentions the control function of public finance. It results from the redistributive function which is carried out using the form of monetary circulation, which allows for the registration of economic and social phenomena, and then their analysis and appropriate conclusions (B. Brzeziński et al., 2006). Among the functions of public finance management Andrzej Borodo also included the fiscal function, understood as providing the state or local governments with funds for the implementation of their tasks (Borodo, 2007).

The functioning of public finance system is closely related to the public administration system. The bodies and institutions of public administration are not only responsible for the allocation, distribution and stabilization of the state's economy, but also determine the directions of public policy. The leading policymakers of public administration are politicians who, as a result of elections, have been entrusted by society with the task of managing certain affairs. Can we then formulate a claim that public finance also plays a political role?

### 2 Public finance and the role of the government

The literature on the functioning of public finance is relatively short on the causes of certain solutions impacting the economy. The discussions rather concern the ways the governments should intervene in the economy as well as what they should tax, what expenditures they should make or what objectives they should promote (Afonso et al., 2020). It is also commonly accepted that the aim of the government's actions is the increased welfare of the entire society, economic growth and provision of security, in the broad sense of the word. The role of policymakers in this process is not easy. An increase in expenditures for the implementation of public tasks should be accompanied by an increase in the mandatory public financial levies. Insofar as the social expectations concerning the new, free public services keep growing and are generally accepted (Wagner, 1889), the implementation of the second element in the form of increased taxation is met with resistance on the part of those obliged to pay. The relationship between the state's level of taxation and the level of its expenditures demonstrates the economic model it adopted. At the beginning of the 20th century, when liberal

theories on the role of the state in economy were dominant, the tax income of European countries in relationship to their GDP was 8-12%. This amount was sufficient to carry out the basic functions, such as maintaining order and enforcement of property rights. However, after the widespread adoption of an economic model in the form of state interventionism, the taxation of the share in national income has significantly increased. In the case of the new industrialized countries, this share increased on average from ca. 12 percent in 1913 to even 50 percent in 2020 (Piketty, 2014). Factors which contributed to this growth were both political and ideological. The expectations of individuals toward the state have changed, resulting in the expansion of the public activity of the state into many areas which were previously the domain of the private sector. The redistribution of goods caused part of society to grow accustomed to the protective role of the state, not only in the realm of external security, but also the social one, in the field of public infrastructure, education, culture, etc. Social expectations toward the state are constantly growing. They are expressed in the desire to reduce the burden in the form of labor and the obligatory public levies. The issue of the maximum amount of working hours per week is one of the most important points on the trade unions' agendas. Another issue related to the amount of "mandatory work" is the question of retirement age. As the life expectancy of the citizens increases, the expenditures incurred by the pension funding institutions grow; in the face of financial crises they are seeking to raise the retirement age, which in turn meets with the general lack of social acceptance, similarly to lack of consent to the introduction of new taxes or other public levies. Social expectations can be defined by a simple rule of thumb – "we ask for as much as possible, we will give up as little as possible". The role of the government is the adequate balancing of the state's revenue and spending capacity. Most states do not perform this role particularly well, which can be demonstrated by the current level of debt of the particular countries. At the end of the second quarter of 2023 the relationship of public debt to GDP was 166.5% in Greece, 142.4% in Italy, 111.9% in France, 111.2% in Spain. The average value for all European Union countries was up to 83.1% (Eurostat, Euroindicators 2023). The democratic system of authority based on the cyclical opportunity to change the authorities as a result of the general elections of the legislative authorities, is not conducive to the policy of sustainable financial public economy. Those in power, wishing to continue to govern the country, are seeking political support, meeting the social expectations. The opposition, in turn, wanting to rule in the future, promises to meet the social expectations which the government is not ensuring. The voters to a significant extent consider whether political promises impacting public finance meet their social expectations and impact their private finances. In an opinion poll conducted after 2023 parliamentary elections in Poland, 52% of the respondents claimed that the economic program of the particular election committees impacted their political decisions, while 61% indicated that it was about their values and principles which the particular political parties represented (CBOS, 2023). At the same time only 32% of the respondents selected the answer concerning politicians' integrity as the basic factor influencing their decision. In view of this attitude of the voters, it is obvious that political parties will base their election programs to a great extent on promises related to the management of the state's financial affairs.

### 3 Materials and Methods

In order to examine the role of public finance in the process of governing and aspiring to gain power, the scope of proposals of political parties participating in the parliamentary elections in Poland, which took place on the 15th of October 2023, was analyzed. The analysis included the official election programs announced at program conventions of political parties which, as a result of the elections, introduced their deputies to the Polish parliament. Singled out from the programs were all the promises which impact the redistribution of public goods and services and need to be financed from public funds, as well as those which impact the state's tax revenue. The order of analysis of the

particular electoral committees is consistent with the order of results they achieved in the voting.

### 4 Election programs of political parties

The greatest number of votes in the elections to the Parliament of the Republic of Poland in the elections which took place on the 15th of October 2023 was won by the KW Prawo i Sprawiedliwość (Law and Justice Electoral Committee), which received 35.38% of the votes (National Electoral Commission, 2023). The Law and Justice party ruled Poland until 2023, having won the elections in 2015 and 2019. In its election program called "The safe future of the Polish people" (Law and Justice program, 2023) the party referred to its previous activity, which emphasized mainly the achievements in the scope of public finance reform, pointing out e.g. the sealing of the taxation system and the lowering of taxes. Other achievements included the "great social policy", "great local policy", "great developmental policy", "great security policy", "great anti-crisis policy", "great cultural policy and educational reform" and the "great agricultural policy". Of this list, the fiscal area is directly affected by the realm of the "great public finance reform", while the distribution area in varying degrees concerns the remaining "great policies". The program presents developmental perspectives for Poland until 2031, divided by the following issues: system; security; justice and civil rights; institutional reform of the European Union; financial security of Polish families and decent work; housing; healthcare, prevention and physical activity; education and intellectual resources of the young generation; culture; digitalization; infrastructural development; water; agriculture, energy and mining. From the aforementioned areas, the tasks significantly impacting public finance are the ones belonging to the category of "security", "financial security of Polish families and decent work", infrastructural development, as well as energy and mining. These areas entailed actions significantly burdening the state budget. For example, it was noted that from the 1st of January 2024 the previous "500+" benefit (childcare benefit in the amount of PLN 500 per month was paid for each child until the age of 18, regardless of the family's income. It was introduced by the Law and Justice government in 2016), will become an "800+" benefit (the increase in the benefit means additional cost for the state budget in the amount of PLN 24 billion, i.e. ca. EUR 5.6 billion). The security area mentioned the need for Poland to build "the strongest" land army in Europe. A number of big infrastructural investments was planned, too. The document was accompanied by an annex named "Strong economy, stable budget, safe Poland. Economic achievements of 2015-2023", including a number of statistical data concerning the state economy and its finance.

The second best result belonged to the Coalition Electoral Committee Koalicja Obywatelska PO .N IPL Zieloni (Civic Coalition PO .N IPL the Green Party), which gained 30.7 % of votes. The committee announced its election proposals in a document named "100 hard facts for the first 100 days of ruling!". The program includes 100 action objectives in the following areas: family, the youth, the elderly, women, entrepreneurs, healthcare, education, social policy, taxes, flats, energy, European Union, environment, secular state, agriculture, holding the PiS government accountable for its actions, lawfulness, security, national defense, non-governmental organizations, culture. From among the 100 election proposals, the implementation of 45 of them would involve an increase in budgetary spending. Particularly noteworthy are such proposals as: 0% loan for the purchase of the first flat; 30% pay raises for teachers; raising the tax-free amount in PIT from PLN 30 000 to 60 000; subsidies of PLN 600 for rental housing for the young; PLN 1500 monthly allowance for young mothers returning to the labor market, raising the amounts of the Alimony Benefit Fund; raising the amount of funeral allowance; one month free of social security contributions for entrepreneurs, vacation benefit for entrepreneurs in the amount of half the minimum wage. The Civic Coalition program also included references to fiscal policy in the form of announcements to reduce some of the tax benefits, e.g. lowering the VAT rate to 8% for "beauty" services, partial

abolition of capital gains for savings and investments; introducing 0% VAT rate for public transportation services (Civic Coalition program, 2023).

The third highest result in the parliamentary elections belonged to the Coalition Electoral Committee Trzecia Droga Polska 2050 Szymona Hołowni - Polskie Stronnictwo Ludowe (Third Way, Szymon Hołownia's Poland 2050, Polish Peasant Party) with the support of 14.4% of the voters. The committee promised to implement 12 "guarantees". These were: a simple and stable tax system, voluntary social security contributions for micro-companies at a risk of insolvency, 6% of GDP for education, improved access to healthcare, replacing the 500+ benefit with family-friendly tax reliefs; strengthening women's rights; supporting agriculture, investing in green energy, introducing personal assistants for the disabled; improving access to housing, including students' dormitories for 1 zloty, pay rises in the budgetary sector, development of the Polish defense industry. Out of 12 proposals mentioned above, 9 involves an increase in public spending. These include, e.g.: pay rises for employees in the budgetary sector; introduction of the "dormitory for 1 zloty" program; increasing the spending on education to 6% of GDP, increasing the spending on healthcare to 7% of GDP, changes in the healthcare contribution for entrepreneurs. The program also includes the idea of reorganization of the Polish tax system by centralizing the existing premiums and taxes on labor into one tax. It also includes a proposal to change the mechanism of public expenditure in the area of family benefits, from the previous formula of monthly benefit in the amount of PLN 500 per each child in the family, to the introduction of family-friendly tax reliefs in the PIT tax (Third Way Coalition and the PSL program, 2023).

The Nowa Lewica (New Left Party) Electoral Committee was supported by 8.61% of the voters. The party's election program included the following 17 areas: good work; science, research, innovations; liberal and friendly school; green deal; profitable agriculture; fair economy, stable finance; transportation; equality and respect; secular state; strong Poland insStrong EU; diplomacy and cooperation; secure Poland; healthcare for everyone; safe senior citizens; social policy, support for the disabled; law and justice; housing as a right, not a product. On the whole, the aforementioned areas included 155 initiatives. 70 of them concern the redistribution policy. The ones which could have the biggest impact on the public finance realm include: the proposal of the lowest pay in the budgetary sector being not less than 130% of the minimum pay in the economy; increasing the spending on research and development to the level of 3% of the GDP; a common scholarship program for all students in the amount of PLN 1000 a month; free lunches for schoolchildren; additional 1 bn. PLN a year for farmers' insurance; local transportation for PLN 59 a month; guaranteeing healthcare spending at the level of 8% of the GDP; reimbursement of all prescription drugs so that they cost no more than 5 zlotys; a voucher worth PLN 500, provided every two years to each senior citizen for holidays; building 300 000 flats for low cost rental. With regard to the increase of tax revenue the electoral committee of the New Left offered to "collect money from the market – but from those who have it, not from pensioners and employees", suggesting the introduction of a tax on excessive profit of fuel and energy companies; introducing a progressive PIT scale, taxation of digital corporations. Nevertheless, the program also indicated the need to lower the VAT rate (New Left program, 2023).

The last of the committees which introduced its deputies to the Polish parliament after the 2023 elections was the Konfederacja Wolność i Niepodległość Electoral Committee (Confederation, Freedom and Independence) which gained 7.16% of the voters' support (currently in Poland, a threshold of 5% of the vote for parties and voters' electoral committees and 8% for party coalitions applies nationwide in parliamentary elections). The program of this committee for 2023 parliamentary elections was expressed in eight areas. They constitute separate chapters of the "Constitution of freedom" – a program presented in June 2023. These are: taxes, EU policy, education, immigration, energy,

food, housing and healthcare. Each of the pillars includes detailed assumptions. Contrary to previously analyzed election programs, the Confederation's program mainly emphasizes the state's fiscal policy, so as to mitigate it significantly. It announced a liquidation of a number of taxes – including the tax on civil law transactions on real estate contracts; local fees as well as taxes and charges included in the energy price. It mentioned also an increase in the amount free of tax in the PIT tax up to 12 times the minimum wage, introduction of flat rate tax in PIT with the tax rate in the amount of 12%, liquidation of capital income tax; reduction of VAT and excise tax rates for fuel purchases, liquidation of VAT and CIT tax for mines and liquidation of emissions fee. Confederation also proposed changes to the social security system, consisting in entrepreneurs having the right, not a duty, to use this system. As far as the redistribution function of the state is concerned, the Confederation program mentioned the need to increase expenditures on state defense. In other public which are the domain of the state, Confederation provides for an introduction of a model based on competitiveness, e.g. in healthcare and education (Confederation, Freedom and Independence program).

An online portal devoted to finance, money.pl, included information on the estimated sum of the burden on the public finance system of the promises made by electoral committees at the time of the election campaign (money.pl. 2023). According to this information, the promises of the Law and Justice Electoral Committee were estimated at PLN 157 bn., Civic Coalition Electoral Committee at PLN 120.3 bn., Third Way, Polish Peasant Party Electoral Committee at PLN 126 bn., and Confederation, Freedom and Independence Electoral Committee at PLN 182.1 bn.

## 5 Conclusion

The issue of functioning of the state in the field of public finance management was one of the main topics on the Polish political scene before the 2023 parliamentary elections. It focused mainly on various promises for the funding of new benefits, increasing the financing of the current public tasks or decreasing the applicable fiscal burdens. The promises made were of a general nature, with no detailed information on how the objective was to be achieved. The information concerning the increase in public spending did not include the content concerning the sources of funding (or the content was vague). On the other hand, the information concerning the decrease in fiscal burdens did not indicate how to fund the current public task in the view of loss of their source of funding. Public finance became an object of a political game, an area of election promises, in a vast majority of cases leading to the improvement of circumstances for the individual. There were no slogans about the need to limit budgetary deficit, seek budgetary balance, increase the retirement age or limit social benefits, which is what should be discussed from the perspective of responsible financial management. The discussion was dominated by the policy of subjecting the public finance sector to the particular objectives of the particular political parties. The classic functions of the public finance – allocative, redistributive and stabilizing functions, were reduced to a role subservient to the interest of a political party.

Can we therefore speak of a political function of public finance? According to the authors, such a claim is justified. Election promises impacting public finance are transformed (although not always) into legal solutions applied by the government and are aimed at securing the voters' support.

This does not only concern Poland, but can be seen in all democratic countries. The political function of public finance to a great extent impacts the present condition of the state's public economy. Guided by the need to please the voters, the decisions made have a significant impact on the scale and level of redistributive and allocative actions. The principles of rationality of public economy, in particular just before the elections, lose to populist political decisions. The result of the race to win the voters' favor is a permanent increase in the public debt, i.e. transferring the effects of the decisions to the next generations.

In this respect the political function of public finance has a negative meaning, criticized by finance professionals, but expected by the majority of voters.

The political function is expressed by impacting the condition of public finance in the direction deemed as desired by the public authorities or candidates for these roles, in order to secure social support. According to the authors the political function of public finance ought to be implemented within the principles of financial law which constitute the mechanisms of the state's economic security, such as the limit of public debt to GDP or the amount of budgetary deficit. Moving beyond these principles can be a threat to the state's economic security.

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