

FISCAL ILLUSIONS IN POLAND

In modern democracies, there exist numerous political and institutional factors due to which the public authority policy does not aim to maximize social utility. This type of attitude is based on individual citizens lacking a sense of personal responsibility for the state of public finances. At the same time, the asymmetry of information means that they are not sufficiently aware of the existence and role of long-term budgetary constraints. As a result, citizens create for themselves a false idea of possible variants of democratic choice, and therefore are subject to **fiscal illusions**. This state of affairs results in the creation of budget deficit and the use of public loan as a substitute for taxation leading to rapid accumulation of debt. This represents the biggest challenge to **fiscal sustainability**, which should be regarded a public good conditioning sustainable socio-economic development, thus requiring special protection. These circumstances justify the creation of institutional solutions that secure the interests of the citizens against the consequences of an excessively relaxed fiscal policy. These solutions, consisting of an extensive and internally diverse group, are referred to as "**fiscal policy rules**". In general, they are to restrain the tendency of politicians to increase public expenditure. In theory, public authorities subject to restrictions under the rules of fiscal policy should implement reforms to improve the state of public finances. In practice, they often try "circumvent" the rules of fiscal policy by knowingly creating fiscal illusions. In this regard, public authorities dispose of a wide catalogue of measures. Typically, they rely on one-off measures or statistical manipulations that affect the results of national accounts and can be considered as forms of the so-called **creative accounting**.

The main objective of this project is to identify, analyze and evaluate the activities of the Polish public authorities in 1999-2017 showing the features of fiscal illusions. This objective may be reduced to answering two research questions: What forms of fiscal illusions, created by Polish public authorities, appear in 1999-2017? What are the consequences of these actions to the Polish fiscal sustainability in the medium- and long-term perspective?

Within the project, the Polish legislative solutions will be the main **subject of the conducted research**. These may be classified into two groups. The first group includes regulations affecting the scope of restrictions resulting from the rules of fiscal policy. These include both provisions implementing these rules as well as those creating the institutional and economic environment in which these rules function. The second group includes regulations showing features of fiscal illusions. They must be subjected to in-depth analysis to determine the real purpose of the introduced solutions, which is not usually articulated by the initiator of legislative changes, and the consequences they pose to the Polish fiscal sustainability. The research on the issues of fiscal illusions will also cover factual acts taken by public authorities, which show the features of fiscal illusions. The research will focus primarily on the Polish legislative solutions. It should be noted that these solutions are part of an integrated legal order. Thereby, achieving the objective pursued in the research requires the EU and international solutions reference.

Adopting the subject of study covered by the project is justified by **insufficient knowledge** on fiscal illusions created by the Polish public authorities. In particular, the degree of "loosening" the rigors resulting from the rules of fiscal policy and the risk involved for the medium- and long-term fiscal sustainability of Poland are unknown. The significance of this problem is evidenced by the example of Greece, which "improved" its budgetary position by generating fiscal illusions. This situation proved to have disastrous consequences in an era of growing economic problems caused by the global financial crisis. In recent years, there has also been a significant increase in the activities of the Polish public authorities that could potentially cover all the features of fiscal illusions. Such activities constitute a serious threat to the fiscal sustainability of Poland, and thus to its socio-economic development. The experience of the recent debt crisis affecting the highly developed countries of the euro area requires the traditionally understood concept of fiscal sustainability to be redrafted. It is also necessary to develop new recommendations concerning the design of fiscal rules and to form mechanisms to protect the public from the consciously created fiscal illusions by public authorities. The proposed project is an expression of these needs. Thus, it may be considered one of the elements for constructing solid fiscal sustainability foundations in Poland. The results should be included in developing the principles of **responsible fiscal policy**.