

# Social Objectives in Polish Fiscal Policy – Spending vs Performance

Slawomir Franek<sup>1</sup>

Submitted: 19.02.2016. Final acceptance: 04.04.2016

**Purpose:** The organization of this article was subordinated to the connections between the government program documentation related to the state social objectives and their implementation at the budgetary level. The article shows the necessity of perceiving fiscal policy as an instrument to implement government programming objectives. The aim of the article is to assess the degree of implementation of social objectives on the basis of information resulting from the experience gained in the area of performance budgeting in Poland.

**Methodology:** To assess the scale of financing of social objectives in Poland in comparison with other European countries, the author used Eurostat data from COFOG (Classification of the Functions of Government). To assess the effectiveness of state operations related to the achievement of social objectives, the author used information from the implementation of the performance-oriented state budget. It was assumed that the performance-oriented system linking the clear structure of public expenditure with the objectives and measures assigned to them to assess the effectiveness of fiscal policy in particular areas of government intervention.

**Findings:** The relations between individual strategic documents related to social objectives and performance-oriented budgetary structure are presented. The results indicate that the scale of financing of social tasks in Poland is at a lower level than the average for European countries. The author points out the functions related to the achievement of social objectives whose effectiveness could be improved.

**Originality:** Using information from the implementation of the performance-oriented budget to compare the individual budget functions of social character on the basis of the evaluation of the degree to which the measures for these functions' operations have been implemented.

**Keywords:** public finance, fiscal governance, performance budgeting

**JEL:** H11, H53, I38

---

<sup>1</sup> University of Szczecin

Correspondence address: University of Szczecin, Mickiewicza 64 St., 71–101 Szczecin, e-mail: sfranek@wneiz.pl.

## Introduction

Fiscal policy, as an element of national financial policy, is defined as a set of activities, engaged in by public authorities in the sphere of public revenues and expenditures, used to achieve social and economic objectives of the country (Mankiw and Taylor, 2014). Thus, it involves decisions concerning the size and structure of public revenues and expenditure. This means that the implementation of social and economic objectives is possible thanks to the use of the appropriate set of tax instruments and public spending. The process of defining social and economic objectives is complex. In the institutional layer it may be equated with the system of strategic management of a state functioning within the framework of development policy. Therefore, to evaluate the degree of fulfillment of social objectives, government strategic documents and budget documents were analyzed.

It was assumed that the experience of Poland in the implementation of performance budgeting makes to use the information on the achieved values of the measures used for the needs of performance-oriented budgetary plans prepared to assess the extent to which the specific social objectives of the country have been achieved. Thus, the aim of this article is to assess the degree to which social objectives have been achieved on the basis of information from the experience gained in the area of performance budgeting in Poland.

## Fiscal policy instruments in the implementation of state developmental programs

In the system of state strategic management in Poland, on the basis of the regulations of the act on the rules of development policy, the following three categories of development strategies can be differentiated:

- 1) Long-term National Development Strategy (LTNDS), with at least a 15-year implementation perspective;
- 2) Medium-term National Development Strategy (MTNDS), with a 4- to 10-year implementation perspective;
- 3) other development strategies.

The Long-term National Development Strategy is a document identifying the main trends, challenges and social and economic development scenarios, as well as the

directions of spatial development of the country, with reference to the principle of sustainable development.

The Medium-term National Development Strategy, which is subordinated to the Long-term National Development Strategy, determines the basic conditions, objectives and directions of the development of the country in the social, economic, regional and spatial dimensions in the period of the next 4 to 10 years. The Medium-term National Development Strategy is implemented through development strategies and with the use of programs, with reference to the European Union programming period.

Other development strategies are presented in the documents defining the basic development conditions, objectives and directions in particular areas specified in the Medium-term National Development Strategy, related to the development of regions, spatial development, sectors or areas and implemented with the use of programs. Among them, nine horizontal strategies corresponding to the main areas of state intervention are of crucial importance. In the social area, these strategies are as follows:

- The Human Capital Development Strategy (coordination – Prime Minister's Office);
- The Social Capital Development Strategy (coordination – Ministry of Family, Labor and Social Affairs);
- The National Cohesion Strategy, which is prepared in order to ensure the implementation of the European Cohesion Policy in Poland. This is a strategic document specifying priorities, areas of use and the system of implementation of European Union funds.

Programs are the documents of operational and implementation nature established in order to implement the Medium-term National Development Strategy and other development strategies. There are two types of programs: operational programs (documents executing the objectives included in the national cohesion strategy and other development strategies) and development programs (documents executing objectives included in other development strategies, including provincial programs and long-term programs referred to in the regulations on public finances).

While all these strategic documents include references to development priorities and indicate activities that are indispensable to achieve these priorities in a medium-term years perspective, entities' annual activity plans, in which operational objectives are defined, are created at the level of the particular central government sector.

However, an efficient state management system requires combining the strategic dimension with the financial dimension. Only then is it possible to verify the significance of the particular state objectives. This means that the shape of fiscal policy to assess the degree to which the strategic objectives in the particular areas of state activities have been achieved. Table 1 demonstrates the relations between the government programming documents and the documents determining the implementation of fiscal policy.

**Table 1.** Matrix of government programming documentation in management and financial terms

Time horizon		
Multi-year	Annual	
<ul style="list-style-type: none"> <li>■ Long-term National Development Strategy (<i>Poland 2030, third wave of modernity</i>)</li> <li>■ Medium-term National Development Strategy (<i>National Development Strategy 2020</i>)</li> <li>■ Other development strategies</li> <li>■ Operational programmes and development programmes</li> </ul>	<ul style="list-style-type: none"> <li>■ Activity plans</li> </ul>	Management dimension
<ul style="list-style-type: none"> <li>■ Multiannual Financial Plan of the State with Convergence programme</li> <li>■ Public sector debt management strategy</li> <li>■ Consolidated expenditure plan in performance oriented system (t+1, t+3)</li> <li>■ Performance-based financial plan of state purpose funds, executive agencies, budget economy institutions and public legal entities (t+1, t+3)</li> <li>■ Multiannual programmes</li> </ul>	<ul style="list-style-type: none"> <li>■ Budget and financial plans of central government entities</li> </ul>	Financial dimension

Source: own elaboration.

The integration of strategic and fiscal goals takes place in Poland at the level of the *Multiannual Financial Plan of the State* prepared for a given financial year and three subsequent years. It specifies the goals together with the measures of the degree of their implementation in a system covering main state functions. component of the Multiannual Financial Plan of the State is the Convergence Programme, which means that this document has a leading role in setting up fiscal policy directions. Its provisions are specified annually at the level of the state budget. This is possible because the particular units of the government subsector are obliged to prepare their financial plans in a performance-oriented system, which to link budgetary expenditure with the objectives of the particular state tasks. This also concerns social objectives, which

in the performance-oriented budget structure are perceived at the level of the many state functions.

## Social objectives in the government programming documents

The specified hierarchy of programming documents is also reflected in the structure of the state development objectives, among which social objectives play a significant role. This is already demonstrated in the wording of the main objective of the Long-term National Development Strategy, which is “the improvement of the quality of living of Poles” (The Council of Ministers, 2013a, p. 5). These documents also indicated that achieving this objective should be connected not only with an increase of the GDP per capita in comparison with the richest state of the European Union but also with the increase of “social cohesion”. Therefore, the following aspects of the social sphere are expected to build up the quality of living: longer life expectancy, health improvement, higher job satisfaction, efficient social security network focused on providing assistance, old age financial security, and participation in cultural life. These aspects reflect various spheres of social activities and require support from public sources.

The review of the provisions of the Medium-term National Development Strategy (The Council of Ministers, 2012) allows to specify these manifestations of state intervention, in which the reference to social objectives was made. Thus, in the sphere of the “effective and efficient state”, the priority of “social capital development” was identified, within the framework of which the significance of education strengthening creative thinking and cooperation abilities, as well as the role of culture and sports in the integration of local community and stimulating civil activities, were emphasized. In the sphere of “competitive economy”, the following priorities connected with the development of human capital were specified: “increasing professional activity rate” and “improvement of the human capital quality”. The importance of activating reserve capacity (among youth, women, seniors, and the disabled), on the labour market, life-long education, digital education, facilitating and supporting health-promoting and preventive activities was emphasized. In the sphere of “social and territorial cohesion”, the priorities concerning “increasing the activity of people suffering from social exclusion or at risk of social exclusion” and “reducing poverty in the most vulnerable groups” were distinguished. Within these priorities, particular attention was paid to: the implementation of social integration programs, increased access to rehabilitation, development of instruments supporting social economy, increased the accessibility and improved quality of flexible forms of childcare, better matching and support in the social benefit system, and increased accessibility of various forms of assistance for school pupils.

The specification of strategic plans in the social sphere was presented in these horizontal strategies that directly refer to the social sphere – that is, the Strategy of Human Capital Development (The Council of Ministers, 2013b) and the strategy of Social Capital Development (The Council of Ministers, 2013c). Table 2 presents the relations between the specific objectives of these strategies and the performance-oriented budget functions.

**Table 2.** Strategic objectives and performance-oriented state budget functions

Name of the horizontal strategy	Specific objectives of the strategy	Performance budget functions
Human Resources Development Strategy	Increasing the level of citizens' competences and qualifications	Function 3 Education, upbringing and care
	Increase of employment	
	Lengthening the period of active employment and ensuring better functioning of older people	Function 14 Labour market
	Improving citizens' health and healthcare system efficiency	Function 8 Physical culture
Social Capital Development Strategy	Improving the situation of people and groups at risk of social exclusion	Function 20 Health
		Function 13 Social security and family support
	Shaping habits promoting cooperation, creativity and communication	Function 3 Education, upbringing and care
	Improving mechanisms of social participation and citizens' influence on public life	Function 16 Civil affairs
	Development and efficient use of cultural and creative potential with simultaneous improvement of social communication processes	Function 9 Culture and national heritage

Source: own elaboration.

It should be emphasized that this is the performance-oriented system that allows for a more precise evaluation of the degree of implementation of public authorities' objectives in connection with the scale of financing of the specific tasks of the country. The application of the budget construction method – in which, apart from the expenditure planned for the implementation of particular tasks, objectives to be achieved

through this expenditure and measures enabling the evaluation of the degree of implementation of these objectives are formulated – makes it possible to monitor progress in achieving development objectives. The significance of the social sphere of the performance-oriented budget structure is reflected in the fact that 6 out of 22 state functions directly cover tasks of a social nature, although in the case of other functions activities related to the social sphere can also be indicated. An example is function 16, “civil affairs”, within which the following tasks were distinguished: combating discrimination and initiatives for the benefit of national and ethnic minorities; maintaining relationships between the state and the church and other religious organizations; and protection of civil, child, and patient rights.

Expenditure on social functions constitutes 40% of total budget expenditure. Function 13, “social protection and family support”, has a special position, as expenditure on this function constitutes approximately one fourth of total budget expenditure. The share of performance-oriented budget expenditure on state social objectives in relation to total budget expenditure is presented in Table 3.

**Table 3.** Share of budget expenditure on social functions in the total budget expenditure in the performance-oriented system in the period of 2010–2014

Function number in the performance-oriented system	Name of the function	2010	2011	2012	2013	2014
3	Education, upbringing and care	14.6%	14.5%	14.4%	14.9%	15.6%
8	Physical culture	0.5%	0.3%	0.2%	0.1%	0.1%
9	Culture and national heritage	0.4%	0.4%	0.4%	0.4%	0.5%
13	Social security and family support	25.1%	23.7%	23.4%	23.3%	22.2%
14	Labour market	0.8%	0.6%	0.5%	0.5%	0.6%
20	Health	2.7%	2.7%	2.4%	2.5%	2.4%
TOTAL		44.0%	42.1%	41.3%	41.7%	41.4%

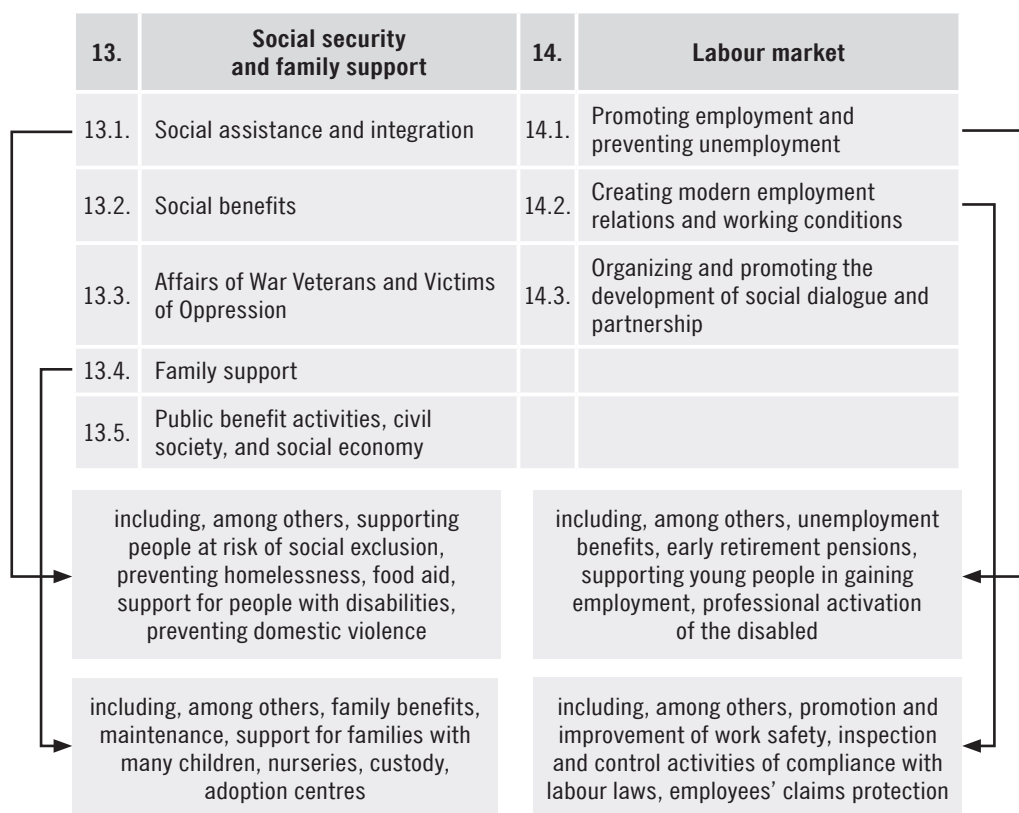
Source: own elaboration.

Two of these functions, namely function 13 (“social protection and family support”) and function 14 (“labour market”), may be equated with the narrow understanding of social policy as an activity consisting in social protection. Figure 1 presents the

structure of tasks within functions 13 and 14 of the performance-oriented system, indicating example activities constituting these tasks.

This approach is consistent with the COFOG used by Eurostat (2011, p. 33), in which the function related to social protection is composed of expenditures on: sickness and disability benefits, old age benefits, survivor benefits, family and children benefits, unemployment benefits, housing allowances, and benefits for people at risk of social exclusion. Sometimes, health protection issues are also included in the scope of social policy (OECD, 2007). There are also approaches in which the concept of social policy covers an even broader scope of public services, such as culture, education, and physical culture. This comprehensive approach to state social objectives is reflected in the strategies implemented in Poland: the Human Capital Development Strategy and Social Capital Development Strategy.

**Figure 1.** Performance-oriented system for state budget functions 13 and 14



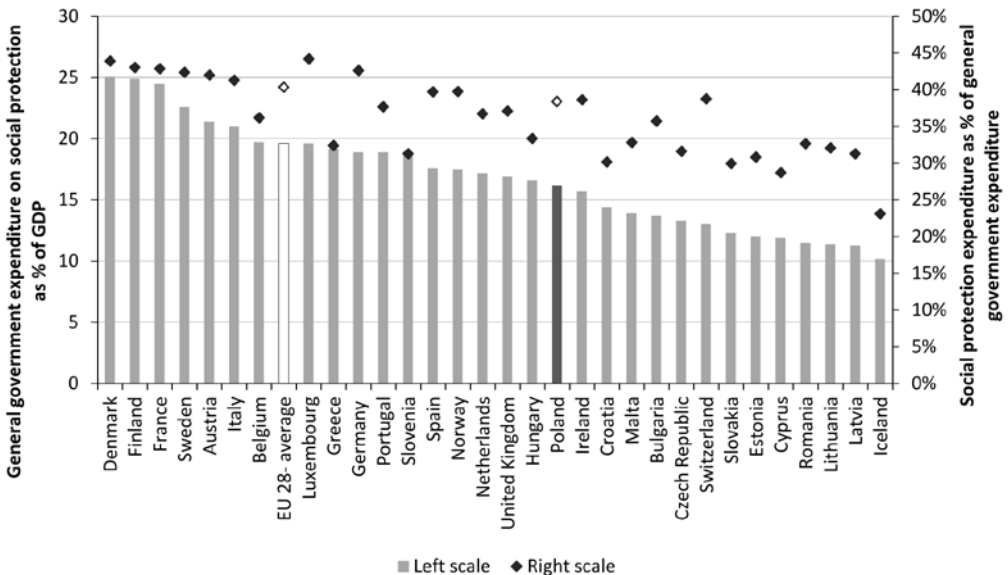
Source: own elaboration.



## The scale of financing of social tasks: A comparative analysis

The scale of financing of social tasks from public sources in the European Union and three EFTA countries (Switzerland, Norway and Iceland) is presented in Figure 2. To that end, expenditure of the general government sector on social protection – defined in accordance with the Classification of the Functions of Government in relation to GDP – was used. The share of this expenditure was presented in relation to the total general government sector. It is worth noting that expenditure on social protection in Poland is below the average for the 28 European Union countries, both in relation to GDP (16.2% in Poland, while the EU-28 average is 19.6%) and in relation to the total expenditure of the general government sector (38.4% in Poland, while the EU-28 average is 40.3%). If we compare these quantities with the data from 2004, we can observe that in Poland this expenditure has decreased by 1.6% of GDP; in comparison, the only more significant drop was registered in Germany (1.8%). In 21 European Union countries, the expenditure on social protection in relation to GDP increased, with the highest increase noted in Spain and Finland (4.8% and 4.6%, respectively).

**Figure 2.** General government expenditure on social protection (COFOG) in European countries (2013) – narrow approach

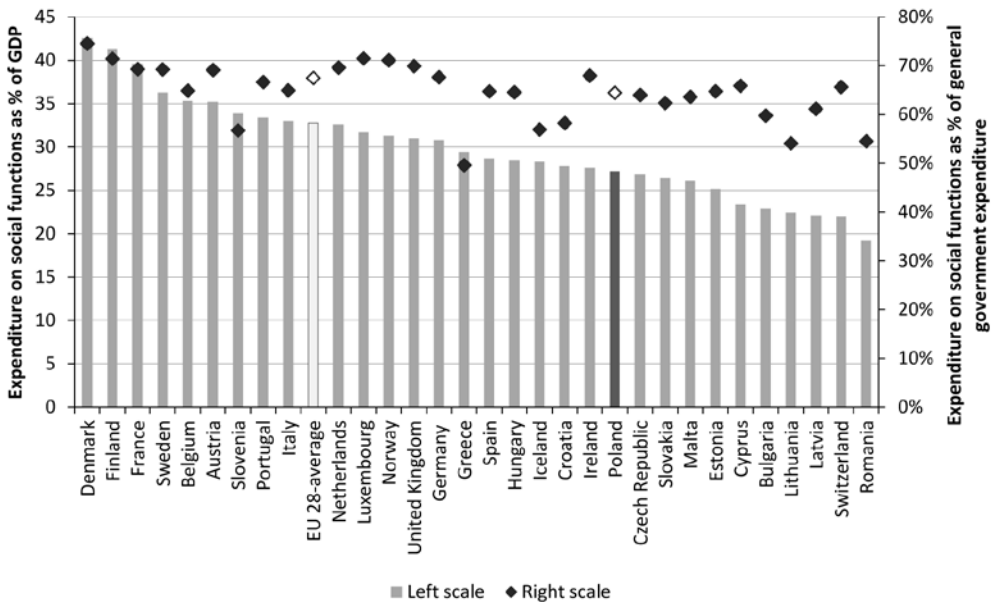


Source: Eurostat.

Similar relations can be observed when comparing public expenditure on social objectives in a broad perspective, in which, apart from social protection, expenditures

on health recreation, culture and religion, and education were also presented. The volume of public expenditure on social tasks in Poland in the broad perspective is at the level of 27.2% of GDP, while the EU-28 average amounts to 32.8% of GDP. The share of this expenditure out of the total expenditure of the general government sector in Poland amounts to 64.5%, while the EU average is 67.5%. The position of Poland in this perspective is influenced, first of all, by the low relation of health protection expenditure to GDP, which for Poland is at the level of 4.6% of GDP (only Romania, Latvia and Cyprus have lower rates), with the EU-28 average for amounting to 7.2% of GDP. It should be noted that, in the Multiannual Financial Plan of the State for 2015–2018 published in April 2015, it was assumed that by the year 2018 the real increase in government expenditures on functions related to social tasks (social protection increase by 13.9%, health protection increase by 13.6%, education increase by 9.6%) in comparison with the year 2013 is to be lower than the increase of expenditure on national defense (25.6%), or economic issues (20.0%).

**Figure 3.** General government expenditure on social protection (COFOG) in European countries (2013) – broad approach



Source: Eurostat.

It should also be noted that not only public expenditures determine the extent to which the state is engaged in financing social tasks, as an alternative can be tax expenditures. It is estimated that in Poland, according to the data for 2013, they may amount to PLN

85 billion, which is 5% of GDP. Of this amount, tax expenditures facilitating family and social support constitute the greatest share, amounting to 2.2% of GDP, while tax expenditures related to healthcare amount to 0.4% of GDP and tax expenditures supporting education, culture and sport amount to 0.2% of GDP (Ministry of Finance, 2015). The significance of tax expenditures is confirmed by the OECD research on the funding of family-friendly policy carried out in a group of 33 countries, which demonstrates that tax expenditures supporting families constitute, on average, 10% of the overall public funding in this area (data for 2011), while in the USA they constitute 40%, in the Czech Republic 35% and in Germany 28%. On the other hand, the examples of Denmark, Sweden and Finland indicate that the whole support for families takes the form of cash benefits or services provided free of charge or co-financed by the state (OECD, 2014).

### **Evaluation of the degree of implementation of social objectives with the use of performance-oriented budget measures**

The author assumes that the specificity of the performance-oriented approach to constructing budget plans comes down to looking for relations between expenditures and the achieved values of the measures demonstrating the degree to which the objectives have been achieved, and considers it reasonable to carry out performance analysis of expenses in connection with measures defined for the purposes of an expenditure performance-oriented system for the functions related to the implementation of social objectives. Such an approach makes it possible to use the information on public expenses in a broader manner than in the traditional approach, in which only expenses incurred are compared with the volume of expenditure specified in the budget plan.

However, since an “added value” of the performance-oriented budgeting in comparison with traditional budgeting is the performance information obtained from the measurement of the degree of implementation of budget goals, it is possible to evaluate the degree to which the assumed values of the measures have been achieved. Table 4 presents statistics demonstrating the percentage of measures defined at the task level of the performance-oriented system within each particular function related to the implementation of social objectives, for which the planned value was achieved at the end of a given financial year.

The data included in the Table indicate that there is significant room for improvement of the effectiveness of spending funds on tasks related to the fulfillment of social goals. In particular, this refers to function 8 and function 3, for which the indicator, showing

the percentage of the measures that in the successive years reached the planned values in the analyzed period, is at a lower level than the average value of this indicator for all functions of the performance-oriented system (ranging from 0.6 to 0.7). In the case of function 13, the majority of the applied measures are product measures showing the number of benefit recipients of the specific form of support. Using these measures does not allow for an unambiguous evaluation of the extent to which the objectives have been achieved, since failure to achieve the planned value of a measure is instead an indication of discrepancies (usually small) between the number of entitled individuals and the number of those who actually use the benefits.

**Table 4.** Execution of measures for a task level in social functions of Polish performance budget (2010–2014)

Function number in the performance-oriented system	Name of the function	2010	2011	2012	2013	2014
3	Education, upbringing and care	0.64	0.81	0.53	0.48	0.58
8	Physical culture	0.13	0.40	0.29	0.25	0.50
9	Culture and national heritage	0.53	0.49	0.61	0.89	0.51
13	Social security and family support	0.59	0.59	0.79	0.66	0.80
14	Labour market	0.79	0.63	0.67	0.83	0.72
20	Health	0.62	0.79	0.73	0.83	0.86

Source: own elaboration.

However, it is worth noting that some of the measures that have not reached the assumed values indicate insufficient progress in meeting the priorities defined in the strategic documents. Examples include: the proportion of people with higher education in Polish society in the group aged above 25 (a value of 22.3% was planned at the end of 2014, but the actual value achieved was 20.3%); the number of people declaring physical activity in a given year in comparison with the preceding year (101% was projected, while the actual value achieved was 90.2%); the percentage of inspections resulting in issuing a statement of the infringement of labor law provisions (a value of 60% was projected, while the value achieved was 63%); and the number of highly specialized services financed by the state budget per 1 million inhabitants (488 activities were planned, while 345 were provided). The implementation of these measures for years 2012–2014 is presented in Table 5.

**Table 5.** The planned and achieved values of measures for selected tasks in the period of 2012–2014

Name of the measure	2012		2013		2014	
	plan	actual	plan	actual	plan	actual
The percentage of people with higher education in Polish society in the age group 25+	24.19	20.59	24.99	20.61	22.34	20.34
The percentage of people declaring physical activity in a given year in comparison with the preceding year	104	81.82	104	78.85	101	90.2
The percentage of inspections resulting in issuing a statement of the infringement of labor law provisions	60.0	61.5	60	63.21	60	63.58
The number of highly specialized services financed by the state budget per 1 million inhabitants (in units)	385.26	413.58	388.5	452.35	488.39	345.32

Source: own elaboration.

Additional conclusions can be drawn on the basis of changes in the values of measures monitored for the needs of the Multiannual Financial Plan of the State. These measures are synthetic in nature, as they refer to the state function level. Among these measures, attention should be paid to the measure indicating the percentage of children aged 3–5 participating in pre-school education. In the Multiannual Financial Plan of the State for the years 2011–2014, it was assumed that at the end of 2014 the value of this measure would be 82%. In reality, a value of 79.4% was achieved. It has to be remembered, however, that the provisions of the MFPS for the years 2015–2018 assume that at the end of 2018 a value of 92% will be reached. The situation was similar in the case of the planned employment measure. In the MFPS for the years 2011–2014, it was assumed that this measure would amount to 52.4%, while at the end of 2014 it was at the level of 51%. The provisions of the MFPS for the years 2015–2018 assume that at the end of 2015 this measure should have reached a value of 52.9%. At the same time, it was assumed that the number of highly specialized services financed from the state budget per 1 million inhabitants by 2018 will be 345 on average, which is significantly lower than the number planned initially for the year 2014. Thus, it turns out that, despite guaranteeing public funds for some tasks of the social sphere, there is no success in achieving the planned results. This means that not only the scale of task financing but also the method of task organization influences the potential for achieving the planned goals. It should also be noted that, in the case of many state tasks, the way

of formulating the measures used in the creation of a performance-oriented budget does not allow to evaluate the effectiveness of state policy. It This refers especially to measures showing the number of people using the particular forms of social support or the beneficiaries of the pension scheme. For these groups of people, it would be more reasonable to use measures specifying their financial situation.

## Conclusion

On the basis of the presented analysis, the following conclusions can be formulated. Firstly, the institutional solutions used in Poland, in the form of principles of the development policy and instruments of the implementation of the fiscal policy, enabled to create a comprehensive set of government programming documents, in which the premises of the implementation of social objectives were specified. Secondly, owing to the experience in the implementation of the performance-oriented budgeting, it is possible to monitor the extent to which the country is engaged in achieving social goals in both the financial and performance dimensions. Thirdly, the evaluation of the degree to which the measures defined for the needs of performance-oriented budgeting have been achieved allows to indicate the social spheres in which there is the potential to improve the effectiveness. Fourthly, it should be noted that demographic factors are a significant reason for the changes in trends in the fulfillment of social objectives. For example, the large scale of young people's long-term trips abroad is one of the reasons for the lower interest in higher education. This factor influences the unemployment rate by improving the situation on the domestic labor market.

This means that the factor that determines the efficiency of the execution of state tasks is not only the scale of financing of state tasks as a result of the implemented fiscal policy but also the method of their organization as a result of management efficiency in public administration. In the face of the changing demographic situation in the country, it is also necessary to change direction in relation to many spheres of social activities of the country, particularly education, health protection and pension policy.

## References

- Eurostat (2011). *Manual on sources and methods for the compilation of COFOG statistics – Classification of the Functions of Government (COFOG)*. Luxembourg.
- Mankiw, N.G. and Taylor M.P. (2014). *Macroeconomics. European Edition*. New York: Worth Publisher.
- Ministry of Finance (2015). *Preferencje podatkowe w Polsce*. Warsaw.
- OECD (2014). *Public spending on family benefits*. OECD Family Database.

- OECD (2007). *The social expenditure database: An interpretive guide SOCX 1980–2003*. Paris.
- The Council of Ministers (2012). *National Development Strategy 2020*. Warsaw.
- The Council of Ministers (2013a). *Long-term National Development Strategy 2030 (Third wave of modernity)*, Warsaw.
- The Council of Ministers (2013b). *Human Resources Development Strategy*. Warsaw.
- The Council of Ministers (2013c). *Social Capital Development Strategy*. Warsaw.