

A stylized map of Europe composed of a grid of dots. Most dots are light gray, but several dots are colored red, highlighting specific countries or regions. The title 'Austerity Policies in Europe: The Case of Poland' is overlaid on the map in a large, bold, blue font.

# Austerity Policies in Europe: The Case of Poland

**GAVIN RAE**  
August 2012

- Poland has so far avoided austerity policies comparable to those conducted in Southern Europe and some Eastern European EU-member states. The country has been the only EU member state not to have undergone a recession since the outbreak of the financial crisis. The raising of government spending – particularly through increased public investment – has meant that Polish society has been sheltered from some of the worst effects of the crisis.
- Public debt has risen steadily over the past few years but its current level is still well below the EU average. The country still has considerable room for further fiscal expansion. As the Polish banking system did not undergo a crisis similar in scale to many other ECE countries, the government was not required to divert large sums of money to bail out its banking and financial sectors.
- The government is increasingly coming into line with the accepted economic wisdom in Europe that seeks deficit reduction through cutting public spending. This is likely to lead to an economic downturn and a deterioration of the government's finances. The problem facing the Polish economy is that the positive factors that were driving its economic growth in the past are now pointing downwards.

## 1. Political Background

Since 2007 Poland has been governed by the centre-right party Citizens' Platform (PO), in a governing alliance with the Polish Peasants' Party (PSL). In October 2011, PO was re-elected, becoming the first party in Poland's democratic history to win two consecutive elections. PO's Presidential candidate, Bronisław Komorowski, was also elected President in 2011, giving PO a strong political mandate.

PO is a party with a clear neoliberal background. Leading figures such as the present Prime Minister, Donald Tusk, were members of the minority *Gdańsk Liberal* current in the opposition movement during Communism; and many of its leading figures served in the right-wing governments during the 1990s. However, after failing to win the 2005 elections, the party toned down some of its most extreme liberal policies (such as flat tax rates), taking a more pragmatic approach to socioeconomic policy.

The strategy of PO from 2007 was to introduce economic reform more gradually, in order to ensure that they won a second term of office. This was based on the conception that in order to carry through far-reaching reforms a party needs to govern for at least two terms. Despite this conviction, PO was elected claiming that it would repeat the »Irish economic miracle« in Poland. This aim was cut short by the outbreak of the global economic crisis from 2008 that excluded the possibility of pursuing a growth strategy based upon liberalisation, deregulation and an inflow of private foreign capital.

In contrast to many other European governments, the PO administration avoided extensive spending cuts or austerity programme during its first term of office. On the contrary, the Polish government actually increased its spending, particularly by utilising available EU funds to help pay for a series of investment programmes, many of which were connected to preparations for the Euro2012 football championships. Since returning to office last year, the party has promised to speed up its programme of liberal economic reform and to align itself more closely with the programmes of austerity and 'deficit reduction' being pursued throughout the EU.

## 2. General Economic Conditions

Despite the major falls in GDP suffered by many ECE economies, Poland enjoys the status of being the only EU member state not to have undergone a recession since the outbreak of the financial crisis. GDP rose on average by 3.7 per cent between 2008 and 2011 (see Table 1). This is down from an average of 5.5 per cent between 2004 and 2007, with growth slowing to just 1.6 per cent in 2009. In the context of the severe downturns experienced by other ECE countries, this represents a significant success for the Polish economy.

Despite avoiding an economic contraction, the slowdown has led to a worsening situation on the labour market. Unemployment dropped significantly after Poland joined the EU, falling from more than 19 per cent in 2004 to 7.5 per cent in 2007. However, this has once again increased steadily over the past couple of years, growing to 10 per cent by the end of 2011. Unemployment only reveals part of the difficulties on the Polish labour market. Poland has the highest amount of workers from any EU country that are employed on temporary contracts (so-called »junk contracts«). This has grown at an alarming rate over the past decade, increasing from just 5.8 per cent of all employees in 2000 to almost 27 per cent in 2011 (the EU average is 14.1 per cent).<sup>1</sup>

The slowdown in economic growth, increase in unemployment, reduced revenues (see below) and sustained public spending have contributed to the worsening of the country's public finances. However, these are still manageable when compared those in to many other EU countries. The budget deficit stood at -5.1 per cent of GDP in 2011, after growing from -1.9 per cent in 2007 to -7.8 per cent in 2010. Meanwhile, although public debt has risen steadily over the past few years, its current level of 56.3 per cent is still well below the EU average of 82.5 per cent. Taking internal and external political pressures out of the equation, Poland still has considerable room for further fiscal expansion.

Similar to many other ECE countries, Poland entered the economic crisis with a relatively low current account deficit, compared to most Western European economies. Poland's current account deficit has remained at around

1. »Employees with a contract of limited duration«, Eurostat 2012, available at: <http://tinyurl.com/7c56bab>.

Table 1: Basic economic indicators (%)\*

	2004	2005	2006	2007	2008	2009	2010	2011
<b>GDP growth</b>	4.3	3.6	6.2	6.8	5.1	1.6	3.9	4.3
<b>Unemployment</b>	18.3	16.9	12.3	8.6	7.0	8.8	9.6	10.0
<b>Budget deficit</b>	-5.4	-4.1	-3.6	-1.9	-3.7	-7.4	-7.8	-5.1
<b>Public debt</b>	45.7	47.1	47.7	45.0	47.1	50.9	54.8	56.3

\* »Real GDP Growth Rate«, Eurostat 2012 (<http://tinyurl.com/4fmko>); »Unemployment Rate«, Eurostat 2012 (<http://tinyurl.com/8ymxlmk>); General Government Deficits/Surpluses, Eurostat 2012 (<http://tinyurl.com/6mxfmvu>).

1 per cent of GDP throughout the crisis. The Polish economy is less reliant on exports than many of its smaller neighbouring countries (such as the Czech Republic and Slovakia, which are heavily dependent upon auto exports) and therefore was not so affected by declining export demand. Polish exports also tend to involve manufacturing products that are cheaper for many target countries to import rather than produce themselves. Furthermore, Poland's floating exchange rate allowed for a real depreciation in the value of the złoty, which helped to boost exports.<sup>2</sup>

In the years leading up to the economic crisis, the Polish taxation system became more regressive. In 2008, the personal income tax rates were changed from three bands (19 per cent, 30 per cent and 40 per cent) to two (18 per cent and 32 per cent). This reform essentially resulted in the introduction of a flat personal taxation system, as just 1.5 per cent of income tax payers now pay the top rate of tax (while previously 10 per cent had done so).<sup>3</sup> This followed a significant reduction in the corporate income tax rate, which was cut from 27 per cent to 19 per cent in 2004. The Polish taxation system is also characterised by the relatively high share of indirect taxes (VAT currently stands at 23 per cent), which adds to its regressive character.

Government expenditures have continued to increase throughout the crisis, rising from 15.1 billion euros in 2008 to 16.5 billion euros in the first quarter of 2012. The level of government expenditure in Poland is slightly above the EU average, standing at around 49 per cent of

GDP.<sup>4</sup> However, Poland's GDP per capita (9,300 euros) is over two and a half times less than the EU average (24,400 euros) and is the fifth lowest in the EU (after Bulgaria, Romania, Latvia and Lithuania). Therefore the absolute sum spent by the government on its citizens is far lower than in the richer states in Western Europe. Importantly, the government has significantly increased public investment throughout the crisis, which has helped to stave off a recession (this is considered in more detail below). Although the government has increased social expenditure in recent years, it currently allocates 16.4 per cent of its expenditure on social protection, below the EU average of 20.1 per cent.

Another source of growth for the Polish economy has come through an increase in consumer demand. This has been helped by the relatively small rise in unemployment, that has partly been made possible by the low reduction in public sector employment, that continues to make up over a quarter of all jobs in Poland.<sup>5</sup> Furthermore, wages and salaries have continued to rise throughout the crisis, growing by over 12 per cent between the fourth quarter of 2008 and the first quarter of 2012.<sup>6</sup> Until recently, salaries have been growing faster than inflation, meaning that consumption has continued to increase. This situation is now beginning to change, however, as inflation edges above wage growth, which is made worse by the fact that the government has imposed a pay-freeze on most public sector wages.

2. Leven, B. (2011), »Avoiding crisis contagion, Poland's case«, *Communist and Post Communist Studies*, Vol. 44, Issue 3, September 2011, pp. 183–187.

3. Szumlewicz, P. (2011), »Reformy podatków sprzyjają najbogatszym« in *Podatki. Przewodnik Krytyki Politycznej*, Krytyka Polityczna, Warsaw.

4. Total Government Expenditure, Eurostat 2012 (<http://tinyurl.com/6of4mvce3lo2z>).

5. *Rocznik Statystyczny*, 2011, Polish Statistics Agency.

6. »Labour Cost Index«, Eurostat 2012 (<http://tinyurl.com/6of4mv>). It should be borne in mind that the high level of temporary, insecure employment somewhat distorts this picture.

### 3. Reform Policies

The Polish banking system did not undergo a crisis similar in scale to many other ECE countries, due to its tight lending standards and relatively low level of private debt. Therefore the government was not required to divert large sums of money to bail out its banking and financial sectors, meaning that the bulk of the increase in government spending has been allocated to the productive and social spheres. The government allowed the budget deficit and public debt to rise moderately throughout the crisis in order to fund this increase in spending. However, it has not reversed the regressive tax cuts of previous administrations in order to fund this, with the only new tax change during its first term of office being a 1 per cent increase in VAT.

An alternative source of income for the government are the proceeds from privatisation. The aim of the Treasury is to reduce the share of state ownership in the economy from the present level of over 20 per cent to 10 per cent. It recognises privatisation as a means to bring down its deficit and as an alternative to raising taxes. Between 2008 and 2011 the government completed the sale of 562 companies, which brought an income of around 10.3 billion euros. It plans the sale of a further 300 companies in 2012–13, which it hopes will bring in revenue of 3.5 billion euros.<sup>7</sup>

Despite avoiding a programme of austerity during its first term of office, the PO government did implement a number of spending cuts. These included reducing subsidies for funerals, cutting money that goes to the labour fund (which helps people find employment) and freezing the income level at which families are entitled to receive social benefits (which had been set in 2004).<sup>8</sup>

Since being re-elected in 2011 the government has indicated that it is seeking to reduce its public debt to 42 per cent of GDP by the end of 2015 and its budget deficit to just 1 per cent by the end of its term of office. This deficit reduction is being pursued primarily through local

governments, which have been required to balance their income and current expenditures from 2011.<sup>9</sup>

One of the ways the government plans to reduce its spending is through transforming the welfare system further away from the principle of universalism. The government has proposed changes to the personal taxation law whereby a family with one child and an annual income of over 20,000 euros will not be eligible for pro-family tax relief; subsidies for connecting to the Internet will be abolished; and those earning through their own creative work (scientists, artists and journalists) will no longer be able to claim back costs after earning over 10,000 euros a year.<sup>10</sup> The PO government is also proposing to abolish the special social insurance fund for farmers (KRUS), which allows them to pay lower rates of social and health insurance.

The government has made some attempt to reform public services, such as health and education, that take up a significant share of its overall spending. In 2008, its plans to further commercialise and privatise the health system were blocked by the late President Lech Kaczyński. It has since proposed a series of new laws, including one that would allow public hospitals to be turned into commercial companies. The government is attempting to instigate a similar process of commercialisation and liberalisation of education. The main obstacle to its reform attempts is the so-called »teacher's card« that regulates the pay and hours worked by teachers. The proposal to abolish or reform this agreement with the teachers' trade union would allow local governments to make savings through teachers working longer, laying off some teachers and creating more private competition for state schools. Due to financial pressures on local governments around 1,500 schools, nurseries and dormitories have been closed over the past year.<sup>11</sup>

Some of the major changes implemented by the government concern pensions, which account for nearly 50 per cent of all social spending. In May 2012, the Polish Parliament passed a bill to successively raise the age of

7. »Przychody y prywatyzacji w latach 2012 13«, PAP, 27 March 2012 (<http://tinyurl.com/7shpjuw>).

8. »W 2012 roku więcej dzieci z zasiłkiem«, Gazeta Prawna, 4 June 2012 (<http://tinyurl.com/7dtgtww>).

9. Although local government debt more than doubled between 2006 and 2011, this still made up just around 12 per cent of Poland's overall deficit. (»Samorząd to partner a nie narzędzie rządu«, Portal Samorządowy, 7 February 2011 (<http://tinyurl.com/7arynz8>)).

10. »Rząd obcina kolejne ulgi podatkowe«, Polska, 27 June 2012 (<http://tinyurl.com/7uopkmu>).

11. »7.5tys nauczyciele straci prace«, Gazeta Wyborcza, 2 July 2012 (<http://tinyurl.com/76ake4y>).

retirement until it reaches 67 by 2020 for men and 2040 for women (the current retirement age in Poland is 65 for men and 60 for women.) The reform also includes reducing early retirement privileges for certain labour groups, such as uniformed workers.

One of the most significant and controversial decisions during the PO government's first term of office was to partly reverse the pension reform enacted in 1999. This had introduced a compulsory second private pillar, with 7.3 per cent of total gross salaries transferred to the private pension funds. This imposed a huge burden upon public finances, as the Polish National Insurance Company (ZUS) was required to continue paying the full pensions of all those aged of 50 in 1999, whilst transferring large sums of money to the private pension funds. It has been estimated that this added up to a total of 38 billion euros from the beginning of the reform, equivalent to 11.4 per cent of Poland's GDP in 2010. After a period of negotiation it was agreed that the share of people's salaries being passed to the private pension funds would be reduced from 7.3 per cent to 2.3 per cent and then rise to 3.5 per cent by 2017. Therefore the PO government has moved a significant sum of money away from the private pension funds and into the state budget, thus helping to control public finances.

One of the most important actions of the government has been to increase public investment, through utilising available EU funds. Poland has been the single largest recipient of EU funds from the 2007–13 budget, as it is liable to receive up to 67 billion euros in structural and cohesion funds. This sum increases to 82 billion euros (2,500 euros per capita) once the designated national government funds have been added. This has helped the government instigate large investments in the country's infrastructure (particularly in preparation for the Euro2012 football championship) and has been a major reason that the country has avoided falling into recession.

As a share of overall investment, public investment increased from 35 per cent to 43 per cent between 2005 and 2010. This has ensured that although private investment fell sharply throughout the crisis, Poland's overall investment rate only declined slightly (by 0.08 per cent) in 2009, while in other years it has continued to rise. The biggest increase in investment has been in the area of

buildings and infrastructure, which increased from 1.8 billion euros in 2005 to 3.1 billion euros in 2010.<sup>12</sup>

#### 4. Justification of Policies and Political Actors

Although the PO government adopted a relatively moderate approach to economic policy during its first term of office, it has since announced its intention to speed up its reform agenda. This has been due to internal and external fiscal pressures to reduce its debt and deficit and speed up reforms.<sup>13</sup>

First, the Polish constitution (adopted in 1997) limits public debt to 60 per cent of GDP, meaning that the government cannot take on any financial obligations if it exceeds this level. In order to ensure that this is not breached, Poland has a self-imposed threshold of 55 per cent of GDP and if this is crossed the government has to take action to balance the budget.<sup>14</sup>

Second, the Polish government is coming under increasing pressure from the EU to reduce its deficit and debt. Although Poland has signed up to the recently agreed Fiscal Pact, as a non-Eurozone member it will not be sanctioned if it breaches its strict fiscal rules. However, Poland has signed a bilateral agreement with the European Commission, committing itself to bringing down its budget deficit to below 3 per cent of GDP by the end of 2012.

Although Poland did not undergo a banking crisis similar in scale to many other ECE countries, it did experience a large outflow of foreign capital that caused a sharp downturn in its stock-market and devaluation of its currency. Poland remains positioned on the periphery of the European and world economy, ensuring that it is particularly vulnerable to capital flight from the region. The Polish government has often justified its budget cuts by referring to the prospects that international markets

12. Rocznik Statystyczny 2011, Polish Statics Agency, Warsaw.

13. The pressure to bring down its debt has not always led the government to introduce neoliberal style budgetary policies. The partial nationalisation of the pension system can be considered one example of an alternative to budget cuts, whereby the government reversed a flow of funds moving from the public to the private sphere.

14. It should be noted that although following Eurostat's calculations public debt already exceeds 55 per cent of GDP, according to the Polish government's methodology it presently stands at around 54 per cent.

will punish it if it does not pursue a deficit reduction programme. For example, when prime minister Donald Tusk presented his government's economic policy in parliament at the beginning of its second term he claimed: »I do not hide the fact that the aim of this is to stabilise the financial situation of Poland. This is positive for the reputation of Poland and connected to the security of our bonds.«

Another major reason for the government's reform programme is the perceived prospect of an oncoming demographic crisis. This is primarily caused by the extremely low fertility rate in Poland (1.38) that has fallen sharply since the end of Communism.<sup>15</sup> The Polish government estimates that, based on current demographic trends, the proportion of citizens of working age to those over the age of retirement will fall from 2.6 in 2006 to 1.5 in 2030.<sup>16</sup> These predictions have been used by members of the government to argue for an increase in the retirement age.

Although the government has increased its spending and avoided drastic spending cuts during its first term of office, this was done with a clear strategic aim in mind. The Finance Minister Jacek Rostowski has strongly criticised previous liberal governments in Poland for introducing too many unpopular reforms rapidly and at the same time. This resulted in these governments quickly losing power, meaning they were unable to complete any comprehensive set of reforms. Rostowski has claimed that the PO government has taken a more cautious approach than previous liberal governments, in order to win a second election, after which they can speed up their reforms. Furthermore, he has claimed that this emulates the example of Margaret Thatcher in the United Kingdom, who managed to stay in power for over a decade.<sup>17</sup>

This approach by the PO government has opened up the most serious divide within the liberal reform camp in Poland since the collapse of Communism. The opposition to the government was led by supporters of the architect of the shock-therapy reforms in Poland, Leszek Balcerowicz, grouped within the influential think tank *Forum*

*Obywatelskiego Rozwoju – FOR*.<sup>18</sup> *FOR* has stipulated that the most serious threat to the Polish economy is rising public debt and that in order to address this issue the government must act quickly and decisively. It proposed a series of alternative public spending cuts that included: speeding up privatisation, halting salary raises for teachers, abolishing subsidies for mines, cancelling subsidies for new born children, reducing unemployment benefit, raising the age of retirement and making it equal for men and women, withdrawing pension privileges for farmers, miners and uniformed workers, not increasing maternity leave and reducing subsidies for funerals.<sup>19</sup> Some of these policies have since been taken up by PO during its second term of office.

This divide within the liberal camp was particularly fierce when the PO government was implementing its reform of the compulsory private pension system. Those around *FOR* believed that the private pension system was an essential component of the transition from Communism and that the attempts to reform it were interfering with individual rights and freedoms. It is interesting that these supporters of the private pension system have also been the most vocal advocates of deficit reduction, even though the transfer of money to the private pension funds has drained the state budget of significant resources.<sup>20</sup>

## 5. Economic and Social Consequences

As noted previously, although Poland has avoided a recession since the outbreak of the crisis it has still undergone an economic slowdown and rise in unemployment. However, the raising of government spending – particularly through increased public investment – has meant that Polish society has been sheltered from some of the worst effects of the crisis. One consequence of this has been that budget deficits and public debt have continued to grow, leading to increased pressures upon the government to reduce its spending.

It is likely that a reduction in government spending will lead to a slowdown in economic growth, a worsening of

15. »Total Fertility Rate«, Eurostat 2010 (<http://tinyurl.com/7gtprqs>).

16. »Polska 2030«, Chancellery of the Prime Minister, 2008 (<http://tinyurl.com/d48ucn4>).

17. »Do Przyjaciół Ekonomistów«, Rzeczpospolita, 2 February 2012.

18. See: <http://www.for.org.pl/pl>

19. See: <http://www.for.org.pl/pl>

20. Rae, G., »Poland's Stalled Pension Reform«, paper delivered at the ESPAnet conference, September 2012, Valencia.

economic conditions for sections of society and a deterioration of the government's finances. The problem facing the Polish economy is that presently the positive factors that were driving its economic growth are now pointing downwards. As Poland emerges from Euro2012 it is highly likely that public investment will fall significantly. The government has optimistically predicted that investment will still grow by 0.8 per cent in 2013 (down from a predicted 2.7 per cent in 2012), believing that increased private investment will make up for much of the decline in public investment.<sup>21</sup> Also, with the economic situation in the Eurozone countries increasingly uncertain, it will be difficult to fuel further economic growth through exports.

The reduction in government spending and investment is also leading to a fall in employment, which is reducing consumer demand. Unemployment has continued to increase over the past year, a trend that is likely to speed up after Euro2012. Furthermore, although wages are still increasing, in recent months this has only been slightly higher and in some cases lower than the rate of inflation (presently standing at 3.6 per cent), meaning that real wages are stagnating. This situation is made worse by the freeze on public sector employees' salaries, who have seen their real incomes decline. The increase in unemployment and slower real wage growth have been major factors contributing to the increase in poverty in recent years. The positive economic growth in Poland and fall in unemployment, following its entry into the EU, led to extreme poverty declining from 12.3 per cent in 2005 to 5.6 per cent in 2008. This remained stagnant for the next two years, but then began to increase again, reaching 6.7 per cent in 2011.

The problem facing the government is that the slowdown in economic growth and increase in unemployment is placing increasing pressure upon its public finances. Its plans to bring down its budget deficit and debt over the next couple of years are based upon predictions of sustained economic growth, falling unemployment and increased wage growth. It is unlikely that

the government will be willing to raise taxes and therefore it is probable that it will seek new savings through increased cuts in spending. The policy of focussing on a reduction in local government debt is having a particular effect on many local public services. The closure of schools and deterioration of local health care facilities are visible results of this policy.

## 6. Political Consequences

By avoiding a programme of outright austerity during its first term of office, PO was able to win an historic second term and also gain the Presidency in 2011. With The social democratic left, organised around the Democratic Left Alliance (SLD), is still weak and the conservative Law and Justice Party (PiS) has remained the main opposition in Poland. This has ensured that Polish politics continues to be dominated by two parties from the right. Although PiS attempted to oppose some of the neoliberal policies of the government and present itself as a »pro-social« party during the 2011 elections, the government's relative economic successes meant that PO could maintain its position as Poland's leading political party. Also during its first term of office, PO had managed to avoid major social confrontations and maintain general political acquiescence from a number of social groups. This was particularly the case with teachers, one of the largest and most organised groups of public sector workers in Poland, whose salaries were increased by the government.

As PO speeds up its economic reforms during its second term of office, then it is likely that there will be more social conflicts and political opposition to the government. Already there are signs that this is happening. The decision to raise the age of retirement has been supported by just 7 per cent of the population.<sup>22</sup> The trade union federation Solidarity collected over 1.5 million signatures calling for a referendum on this issue, which was ignored by the government. Trade unions organised a number of large demonstrations, although the bill was eventually passed in parliament and signed by the President.

The new austerity policies of the government are also leading to new conflicts with some public sector work-

21. Following the investment programme for Euro2012 a number of building and construction companies are facing bankruptcy. This is due to the low prices that they offered in order to win the contracts and the subsequent rise in the cost of materials. The most serious such case concerns the company PBG, which made a 5.7 billion euros loss in the first quarter of 2012, after borrowing around 400 million euros from banks. The crisis within the building and construction industry is causing potential problems for banks with the government considering intervening to protect these endangered companies. (PBG za duże, by upać. Gazeta Wyborcza, 1 July 2012 (<http://tinyurl.com/caul4hw>).

22. Obserwatorfinansowy.pl, 20 March 2011 (<http://tinyurl.com/7bk7tb9>).

ers. A debate on the »teachers card« and reform of education is ongoing in the media. Also, the closure of schools and nurseries over the past year has resulted in 7,500 teachers losing their jobs, with more than twice this number having their working hours reduced.<sup>23</sup> From 1 July the doctors' union also started industrial action against the government's reform of the regulations for writing prescriptions, whereby doctors could be fined for any mistakes made.<sup>24</sup>

The slowdown in economic growth and difficulties on the labour market are increasing social discontent. By the beginning of 2012, 56 per cent of people believed that the country was moving in a negative direction, against 26 per cent who thought it was positive.<sup>25</sup> Furthermore, despite the Polish economy continuing to expand, 81 per cent of people fear that the economic crisis will negatively affect Poland and 86 per cent that it will have a negative impact on their own lives.<sup>26</sup> Over the past few months there have been a number of social protests, including an outpouring of anger by young people against the government's signing of the ACTA treaty, protests by the conservative right against the removal of funding for a Catholic TV station and violent clashes between far-right demonstrators and counter-demonstrators on Independence Day in Warsaw. Sensing this upturn in social unrest the government has introduced a new law that restricts the right of people to gather and demonstrate in public.<sup>27</sup>

Although PiS has opposed many of the austerity measures of the government, it has tended to concentrate on other issues, such as those surrounding the Smoleńsk tragedy in 2010. This restricts their support to a particular political constituency and makes it difficult for them to lead the opposition to austerity. Since the 2011 elections the SLD has taken a clearer position against the policies of austerity, that has helped it to shore up the support of its political base. At the 2011 elections the Palikot Movement (RP) won a greater share of the vote

than the SLD and then claimed that it was now the main representative of the Polish left. RP is a liberal populist party that combines support for neoliberalism (for example, a flat income-tax rate) alongside strong cultural liberal policies (for example, on the separation of church and state, liberalising the drug law and so on). In recent months, it has backed the government in its austerity drive, voting in parliament, for example, to raise the pension age. This has contributed to it losing support in the polls, falling once again below the SLD. The government is under continual pressure from neoliberal think tanks and lobby groups (such as *FOR*) to speed up its programme of liberal reform. These groups have strong influence in the media and regularly argue that if the reforms are not enacted quickly the country will face a crisis similar to that occurring in the Southern European countries.

Poland has so far been a relative economic success story in Europe. This is an example of how an increase in government spending and public investment can help stave off a recession and maintain economic growth. Following Euro2012 it is essential that the government increases this investment and expands it into other areas of infrastructure, transport, essential public services and green technologies. However, the government is increasingly coming into line with the accepted economic wisdom in Europe that seeks deficit reduction through cutting public spending. This is likely to lead to a new economic downturn, an increase in social inequality and poverty, a rise in unemployment and a corresponding upturn in social unrest.

23. »7.5tys nauczyciele straci prace«, *Gazeta Wyborcza*, 2 July 2012 (<http://tinyurl.com/76ake4y>).

24. »Polish doctors in protest over prescription drug penalties«, *Warsaw Voice*, 1 July 2012 (<http://tinyurl.com/d5nqzlk>).

25. »Nastroje społeczne w styczniu«, CBOS, January 2012 (<http://tinyurl.com/bsaok5>).

26. »Czy Polacy boją się kryzysu«, CBOS, January 2012 (<http://tinyurl.com/csyzneu>).

27. Wolność zgromadzeń to już przeszłość Wolne Media, 26 June 2012 (<http://tinyurl.com/7qaotka>).





### About the Author

**Gavin Rae** is Associate Professor at the Kozminski University in Warsaw. He is the author of the book *Poland's Return to Capitalism* and runs the blog *beyond the transition*.

### Imprint

Friedrich-Ebert-Stiftung  
Central and Eastern Europe  
Hiroshimastraße 28 | 10785 Berlin | Deutschland

Responsible:  
Dr. Ernst Hillebrand, Head, Department of Central and Eastern Europe

Tel.: ++49-30-26935-7726 | Fax: ++49-30-26935-9250  
<http://www.fes.de/international/moe>

Orders / contact:  
[info.moe@fes.de](mailto:info.moe@fes.de)

Friedrich Ebert Foundation will publish in the coming weeks a loose series of papers on the economic and fiscal policies pursued by various European governments in the wake of the financial and Euro zone crisis.

The series starts with two very different cases – Spain, as a country with harsh austerity measures, and Poland, where orthodox austerity policies have so far been avoided. Papers on Slovakia, Portugal and UK will be published soon.

The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung or of the organization for which the author works.



ISBN 978-3-86498-243-9