

# How populist policies affect the economic system

Mikolaj Borusowski

## 1. Introduction

In my paper I am going to compare and analyse how populist policies affect the economic systems. I am going to focus on Poland after the 2015 election and compare it with Chile under Allende government and Peru under Garcia government. For the purpose of this comparison I am going to refer to the paper titled „Macroeconomic populism in Latin America” by Rudiger Dornbusch and Sebastian Edwards published in 1989.

## 2. Historical background

Poland has a very complicated historical background. Throughout the history it struggled to remain its sovereignty and independence, facing danger from both its neighbouring countries however also suffering from internal instability. Although it could be said that Poland has a long standing democratic traditions, dating back to XV century one has to look deeper into that specifically system and how it developed through time and history. It came from the expanding rights of first knights that evolved into nobility, they guaranteed themselves these rights when a new king was looking for backing up his position. However the problem with that system was that it never evolved to include the rising middle-class, only strengthening the position of nobleman. That of course led to clashes with the middle-class and moreover to internal struggles over power of the most powerful nobleman families who could afford their own armies. That being said, it was important to underline firstly that Poland now for centuries has been divided, that trend continuing nowadays with west of the country being more liberal considering social order and also leaning towards the classically more conservative economic model, government interventions limited to minimum while the east being more conservative socially and left wing oriented economically. Secondly it was to show that what some poles refer to as long standing tradition of democracy is really a false cry, the tradition was not a democracy in todays viewing, then there was occupation only to be followed by a short period of 20 years of autocracy in between the wars to be followed by being under the influence of soviet Russia. With that in mind we then come to Poland in 1989. With the fragile sovereignty we started to rebuild our country, with the focus on the west rather than on the east. Germany became our biggest trade partner. Polish gpb was, with the inclusion of the year 1991, always growing. We became the most developed country from the previous soviet block. However then in 2015 PiS won again the elections. It was due to a simple fact, that a) Polish economy was slowing down considering its growth ( down to 1,4% ) when people where used to 4 or more percent of growth and b) have grown „tired” of the orthodox policies of previous governments and felt that Poland needed to introduce social policies. The PiS government promised to introduce the 500+ program, which was supposed to duel the problem of ageing society.

## 3. The evolution of populism in economy and in law

PiS was targeting the specific group of polish voters, gaining new by offering money through the 500+ program and stating that it will set up different social programs, like social housing and increased donations for farmers. Gaining farmers from the west part of Poland was a crucial objective for them, where those farmers where usually loyal to PSL, a party that dated back to IIRP ( the inter war period ). With the win they needed to change the law, which they started doing right away. The first thing they did was to controversially, omitting the procedures install their judges in the constitutional tribunal. It is important that we look at both economic changes ( mainly spendings ) and changes made in law, because they are intertwined. While in Chile or Peru it was much easier to manipulate law, as the check and balances systems where much weaker or absent, Poland was nonetheless and still is a EU member country, that in itself put a lot of restraints in itself. Also we have to take in account the differences that come from the time that passed by, that nowadays the world is different and works in a different way. Polish government since the start, was targeting an anti EU policies, and by destroying taking over the law system, especially the judgeships, constitutional tribunal ( CT ) and lately there has been some turmoil over the Supreme Court of Poland. With the Supreme Court PiS government added a new chamber , a disciplinary chamber that also now is the

chamber that is supposed to declare the legality or not of elections. What is more, now during the coronavirus time the government started to change the law without even trying to conceive the illegality of their actions, in the same bill they are changing the rights of the citizens, enacting some sort of new hybrid „pandemic” state instead following the prescribed measures for this situation and also proclaiming new taxes ( called „Netflix” tax ).

We could think that those things aren't correlated, however they have tremendous economic effects, considering the will of foreign investors to commit to an investment. Those kind of actions taken by the government have significant effect on demolishing the stability , certainty and predictability of our legal and economic system. After the more orthodox previous governments, even considering the previous PiS government the current one completely and totally used any funds from the budget. This is showing right now, during the coronavirus time. European Committee in an article recently ranked Poland as the one of the most indebted EU countries, before the crisis debt was at 47% of GDP however after is predicted to be around 58% of GDP. This huge rise is caused by the enormous spendings and using any and all left funds. Right before the outbreak of the virus, there was a bill passed that granted 2 billion PLN that were supposed to go to healthcare fund instead to fund the public television. Also each year they spend around 20 billion PLN on the 500 + program, when they lacked money they used the reserve fund and the fund for the disabled for their populist spendings. What is terrifying is that because there were more people benefiting from taking the money from the fund for the disabled than there were disabled people it all got forgotten quickly.

The process isn't any different than that in the Latin American countries described in the aforementioned article. The government wanted to a) win people votes by giving them money and b) they wanted to boost the growth of the economy by increasing demand and spendings especially in the lower classes. The difference lies however not in the process but in the spendings and margins that were left. In the case of Poland the spendings although huge and still could potentially lead to a much bigger problem, especially if the coronavirus situation worsens, have not been so drastic, and the private sector institutions have not been nationalized. That being said, we can see that the process is much more gradual now, the flight of money outside is much slower. This if stopped can be better, because the economic situation is not as dire as by implementing some spending cuts could be improved, but it also has the negative effect of happening very slowly, which for an average citizen means he does not see it and will not react until the collapse. That also means there is less social pressure on the government.

#### 4. Final Thoughts

To sum up I would like to say that I was really inspired by that paper, it struck me how similar the process is and how easy it is to implement. Even today in that age, you could take an old formula and people would still buy it. That in today's world we could have countries in the EU like Poland or Hungary that plainly disobey EU laws and aim to go in the directions of autocracy and EU would be helpless, the lack of competencies and penalties being more and more obvious. Even in the USA there could be a president like Donald Trump. The world right now is dangerously going into turmoil and one has to stop and wonder, if every one was to read that article would they see the pattern, is the explanation to it all broadening peoples knowledge ?