

MICHAŁ KONOPCZYŃSKI

Poznań University of Economics and Business, Poland

PUBLIC DEBT, EDUCATION EXPENDITURES AND ECONOMIC GROWTH IN POLAND

Abstract:

This paper investigates the relationship between economic growth in Poland and selected elements of fiscal policy. The workhorse is the Mankiw-Romer-Weil model augmented with selected concepts from the literature on optimal fiscal policy. The government chooses the size of the deficit relative to GDP and controls the structure of public debt. It also decides how much to invest in education, and how much to spend on public consumption. We prove that with constant values of parameters of fiscal policy, over time the economy converges to the balanced growth path which is unique and globally asymptotically stable.

Having calibrated the model with statistical data, we demonstrate that in the period 2000–2016 economic growth in Poland was driven primarily by rapid improvement in the level of human capital (at a rate of 5.4% per annum), and only secondarily due to the accumulation of capital (2.7% annually). If recent trends in fiscal policy are continued, Polish economy will converge to the balanced growth path with GDP growing at 3.69%. This rate may, however, be boosted, provided that fiscal policy is appropriately adjusted. For example, reducing budget deficit from recent average value of 4.3% of GDP down to 2.3% would speed up economic growth by approximately 0.2 percentage points. We also analyze the effects of changes in the financing structure of public debt. Finally, we present several scenarios of increasing public and private spending on education.

Keywords:

optimal fiscal policy, economic growth, human capital, public deficit, government debt

JEL Classification: E13, E62, H60