

# Stabilization Policies and Structural Developments: Poland and the Crises of 1929 and 2008

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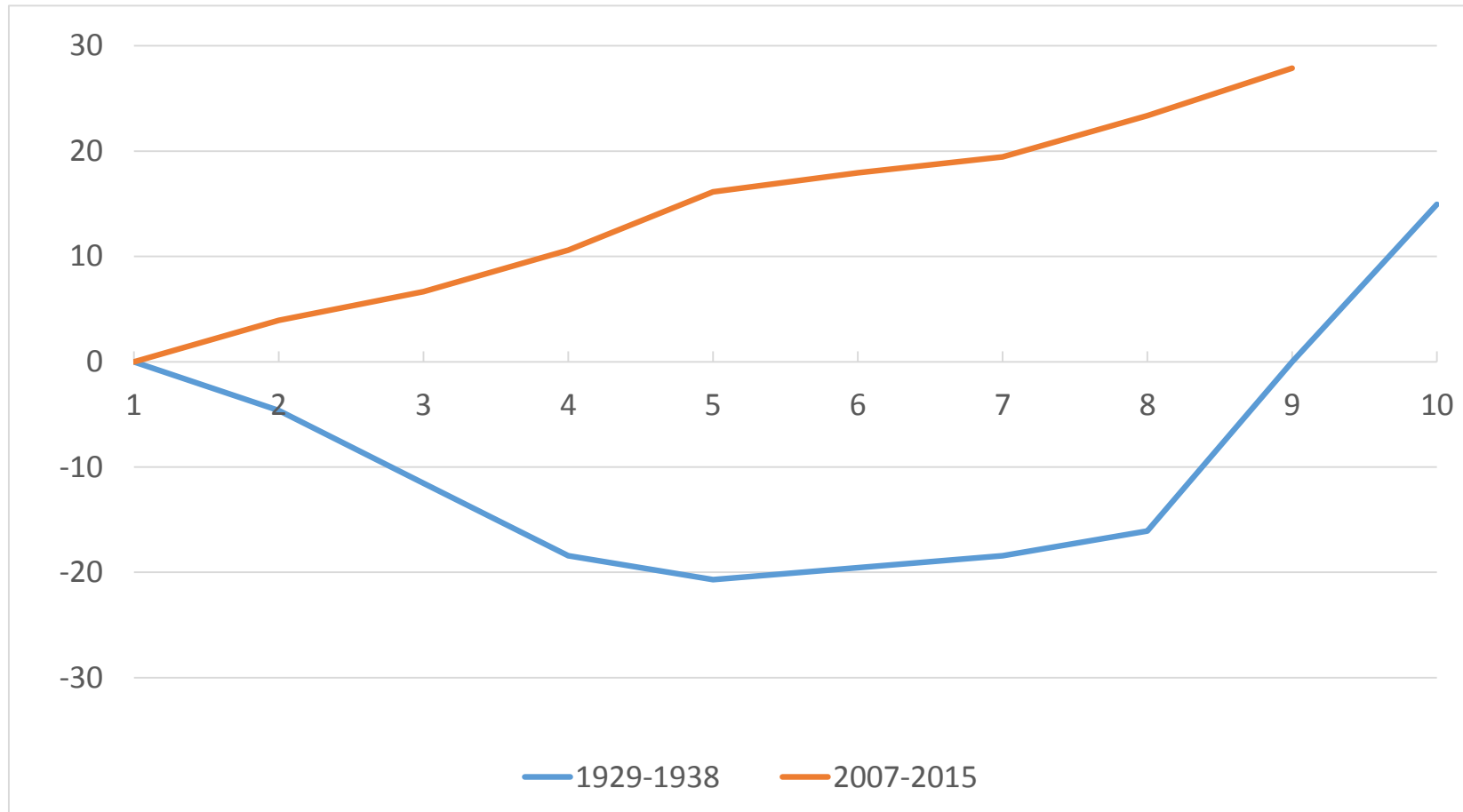
This paper presents personal opinions of the author and does not necessary reflect  
the official position of the NBP

(Work in progress; do not quote! All comments – and critical opinions – are welcome!)

Warsaw, CASE, 17 November 2016

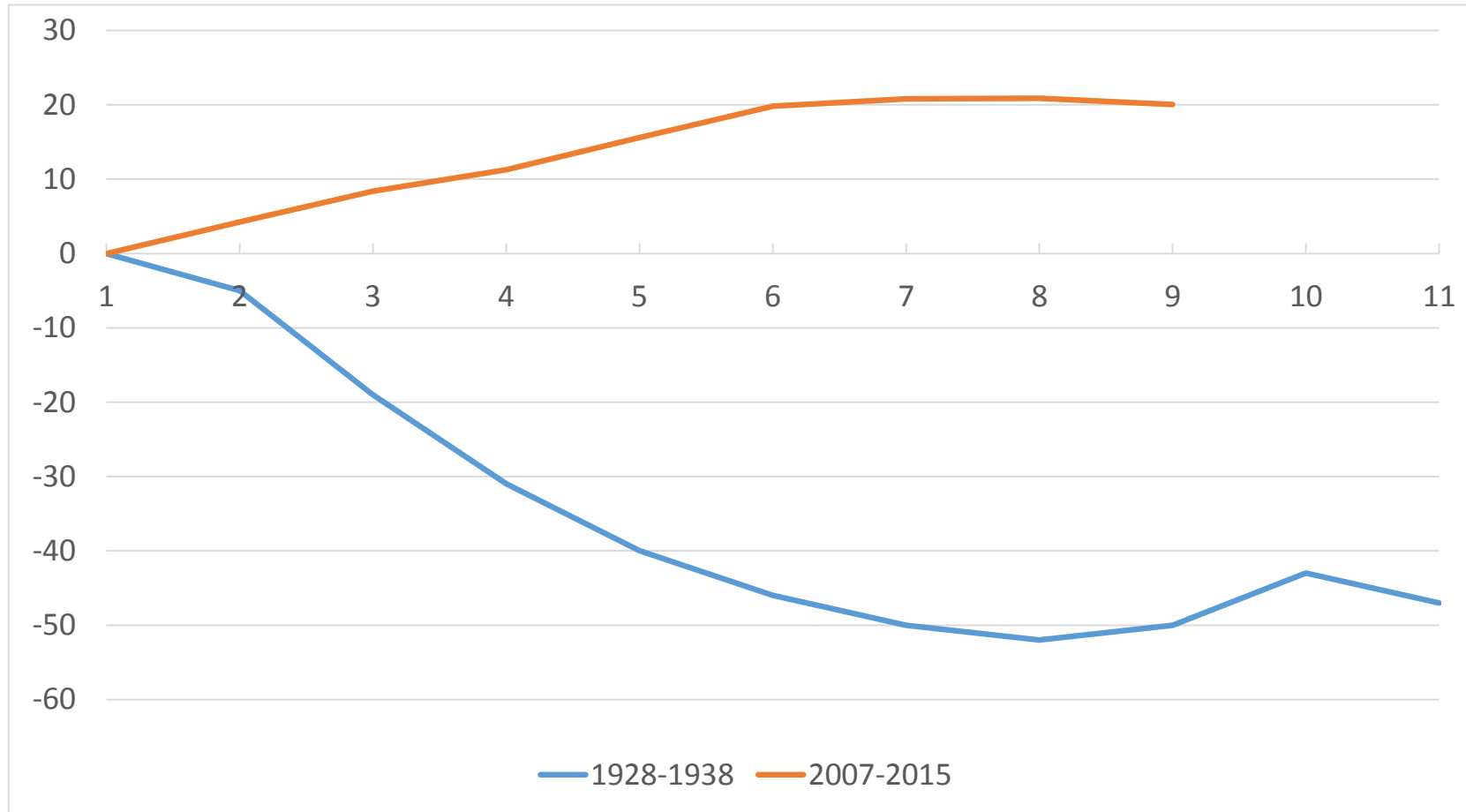
(0) Introduction: Three puzzles  
and three research questions

# First puzzle: National income in Poland, 1929-38 vs. 2007-15 (% , 1929 and 2007 = 100)



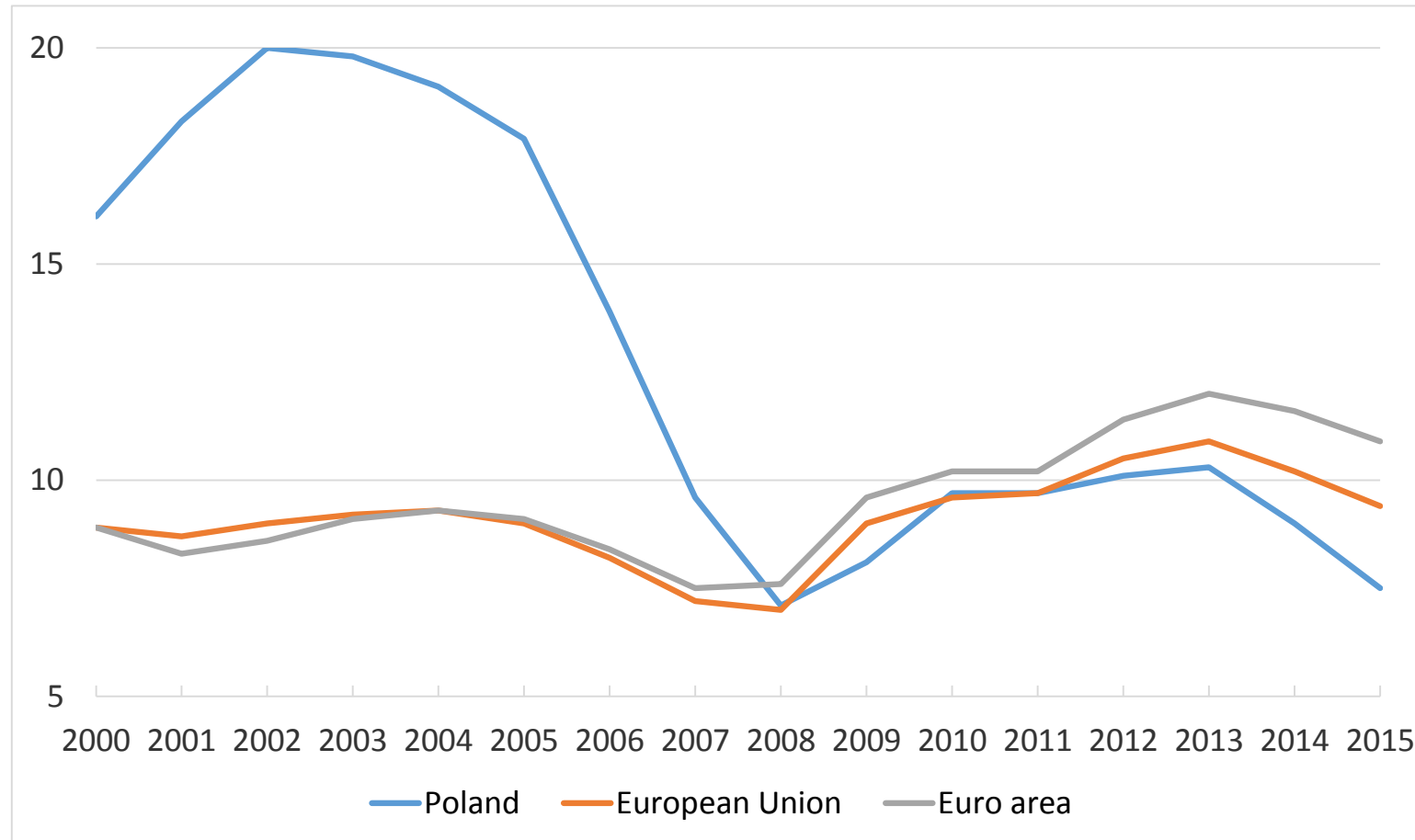
Source: Maddison (2006:467) and Eurostat website.

# Second puzzle: Price developments in Poland, 1928-38 vs. 2007-15 (% , 1928 and 2007 = 100)



Source: Central Statistical Office and Eurostat website.

# Third puzzle: Unemployment rate in Poland, the EU and the euro area, 2000-15 (%)



# The three questions

- **Main: why did Poland do much better during the 2008+ global crisis than during the 1929+ one?**
- **Side: why did Poland perform better during the 2008+ period than other EU (and many non-EU) countries?**
- **Preliminary: does it make economic sense for Poland to compare both periods and draw conclusions?**

# Structure of my talk

1. Does it make sense to compare?
2. The analytical framework
3. Stabilization policies in Poland and the crises of 1929 and 2008
4. Structural developments in Poland and the crises of 1929 and 2008
5. Conclusions. What did go wrong?

(1) Does it make sense to compare?



# Yes, 5 arguments as in both episodes Poland...

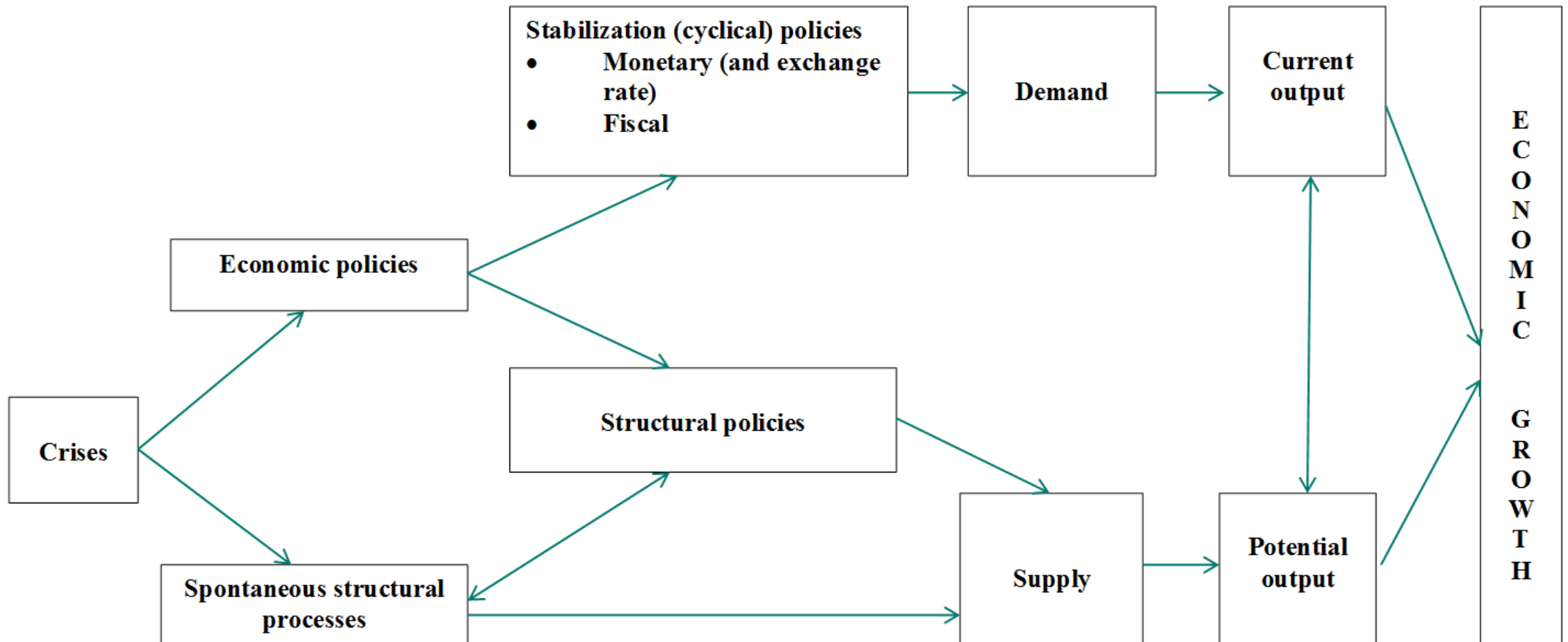
1. ... was a **state belonging to the Western world** and was **powerfully struck by a series of serious external shocks** coming directly mostly from the developed Western countries.
2. ... was a „new” economy in the sense that she was **building a new socio-political-economic system**; she was an **„emerging” economy** struggling for proper **reputation**. In both these eras many economic (and political) institutions were **built almost from scratch**.
3. ... acutely **lacked sufficient resources** (physical and intellectual capital) to promote her economic development (and build her defense industry in the interwar period). Given the chronic deficiency of domestic savings, she had to **import financial capital being this a crucial factor in economic policymaking** in both periods.
4. ... became a typical **small open economy** (i.e. one in which world prices, interest rates and output levels and their changes are exogenous to the economy in question), **subject to strong financial globalization, with a peripheral character**.

# Yes,...

5. When looking from a broader perspective a **similar, general cyclical pattern of developments can be observed** during the periods preceding the crises, the crises themselves and in their aftermath, although the **magnitude** of the events was greatly different. Adopting a bird's eye view, both 1918+ and 1989+ developments in Poland can be seen as having a following sequence:
- **Strong inflation accompanied by economic growth problems** (1918-23: inflation and hyperinflation; 1989-90: Poland on the brink of hyperinflation, followed by disinflation lasting until 2003);
  - **Stabilization coupled with strong economic growth** (1926-9 and 2003-7);
  - **Recession or slowdown with deflation or practically non-existent inflation** (1929-35 and 2008-13);
  - **Recovery** (after 1935 and acceleration of GDP growth since 2014).

## (2) The analytical framework

# Crises, economic policies and spontaneous structural processes: A framework



# Structural developments refer to 4 areas

- Product market
- Labor market
- Financial market
- Industrial and investment policies

(3) Stabilization policies in Poland  
and the crises of 1929 and 2008

# Main features of Poland's stabilization policies during 1929+ and 2008+ periods

	1929+	2008+
<b>Framework</b>	Gold Exchange Standard (until 1936)	Fiat money
<b>Monetary policy</b>		
<b>- Interest rate policy</b>	Accommodative: <b>No stimulus</b>	Accommodative: <b>No stimulus</b>
<b>- Exchange rate policy</b>	No devaluation/depreciation: <b>No stimulus</b>	Strong depreciation: <b>Stimulus</b>
<b>Fiscal policy</b>	Restrictive (despite fiscal deficits): <b>No stimulus</b>	Temporarily considerable fiscal deficits: <b>Stimulus</b>

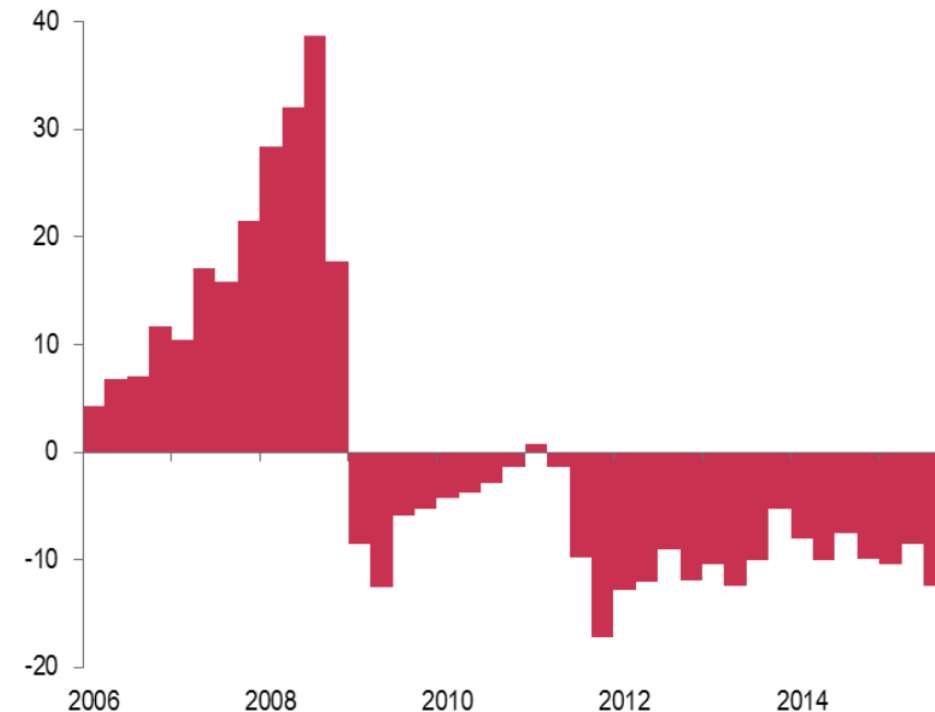
# Exchange rate policies

**Market exchange rates vis-à-vis the parity as of 1929: The zloty vs. selected European currencies, 1933 and 1938 (% , as of December)**

Country	1933	1938
Poland	99.9	99.3
Czechoslovakia	100.4	69.1
France	100.0	43.4
Germany	99.6	99.6
Switzerland	100.2	70.0
United Kingdom	68.1	59.3
Italy	99.0	59.0

Source: Polish Central Statistical Office.

**Deviation of the real effective exchange rate (REER) of the zloty from its 10-year average, 2006-15 (%) (ULC applied as deflators to the REER calculation)**



Source: NBP.



# Fiscal stance

**Polish state budget: Yearly changes of revenues and expenditures, and balance to expenditure ratio, 1929-38 (%)**

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Revenues	0.7	-9.2	-17.8	-11.5	-7.0	8.5	0.5	9.2	9.7	1.7
Expenditures	5.4	-6.0	-12.3	-9.0	-0.6	3.2	1.5	-5.3	8.9	1.9
Balance/ Expenditure	1.2	-2.3	-8.4	-10.9	-16.6	-12.3	-13.1	0.2	0.9	0.7

Source: Polish Central Statistical Office.

**Polish public sector: A general overview, 2007-15 (% of GDP)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	41.3	40.9	38.0	38.1	38.8	38.9	38.4	38.9	38.9
Expenditures	43.1	44.5	45.3	45.6	43.6	42.6	42.4	42.2	41.5
Balances:									
- Actual	-1.9	-3.6	-7.3	-7.5	-4.9	-3.7	-4.0	-3.3	-2.6
- Primary	0.3	-1.5	-4.8	-5.0	-2.3	-1.0	-1.5	-1.4	-0.8
- Structural	-3.5	-5.1	-8.1	-8.2	-6.0	-3.9	-3.4	-2.8	-2.4
Debt	44.2	46.6	49.8	53.3	54.4	54.0	56.0	50.5	51.3
Output gap	3.1	2.8	1.5	1.4	2.3	0.4	-1.2	-1.0	-0.5

Source: European Commission.

# Polish public sector revenues and expenditures: Selected items, 2007-15 (% of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Tax burden:</b>	<b>34.6</b>	<b>34.4</b>	<b>31.4</b>	<b>31.1</b>	31.6	31.9	31.9	32.1	32.4
- Direct taxes	8.3	8.4	7.2	6.7	6.7	6.9	6.8	6.9	6.9
- Indirect taxes	14.5	14.5	12.9	13.6	13.7	12.9	12.8	12.8	12.9
- Social contributions	11.9	11.4	11.3	10.9	11.2	12.1	12.4	12.3	12.7
<b>Social benefits</b>	14.1	14.0	14.5	14.5	13.8	13.9	14.4	14.3	14.3
<b>Compensation of employees</b>	10.4	10.9	11.1	11.0	10.5	10.3	10.4	10.4	10.2
<b>Fixed investment</b>	<b>4.5</b>	<b>4.8</b>	<b>5.1</b>	<b>5.6</b>	<b>5.8</b>	<b>4.7</b>	4.1	4.5	4.4

# (4) Structural developments in Poland and the crises of 1929 and 2008

# Main features of Poland's structural developments during 1929+ and 2008+ periods

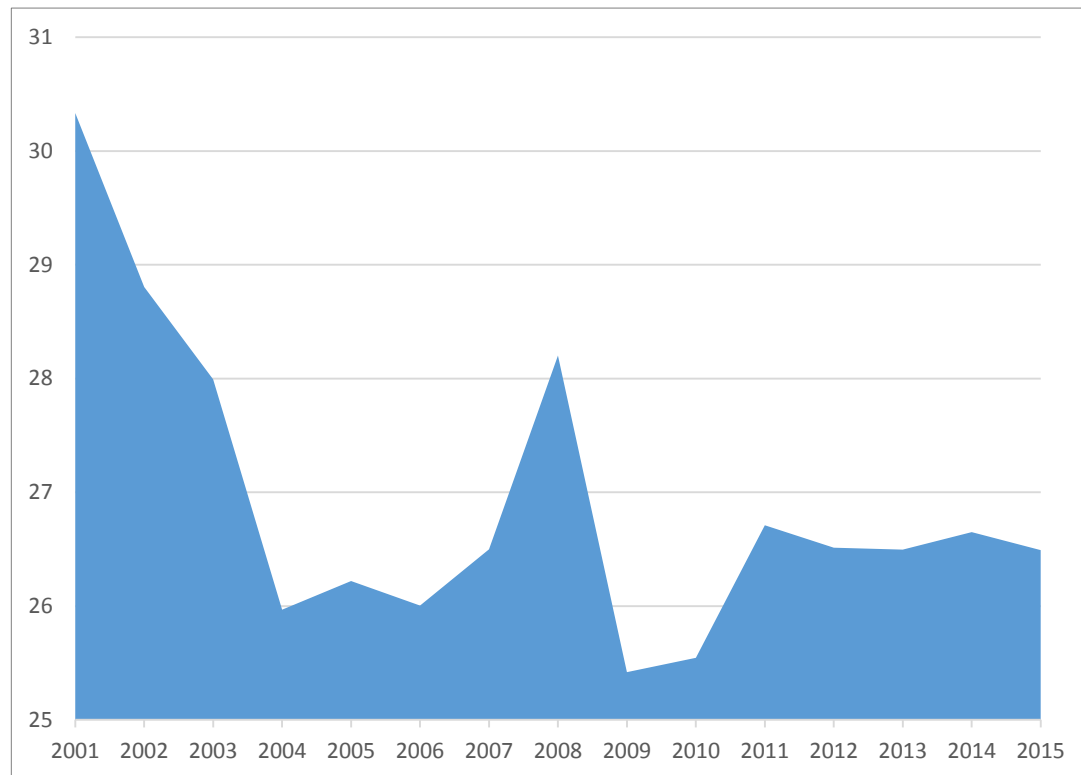
Developments	1929+	2008+
<b>Product market</b>	<p><b>Rigid</b></p> <ul style="list-style-type: none"> <li>• High cartelization =&gt; extensive dumping</li> <li>• Protectionism (tariffs); shift to autarky</li> </ul>	<p><b>Flexible</b></p> <ul style="list-style-type: none"> <li>• EU regulations               <ul style="list-style-type: none"> <li>• Common market</li> <li>• EU as a customs union</li> </ul> </li> </ul>
<b>Labor market</b>	<p><b>Flexible</b></p> <ul style="list-style-type: none"> <li>• Pronounced emigration during the entire interwar period</li> <li>• Its decline during the 1930s</li> </ul>	<p><b>Flexible</b></p> <ul style="list-style-type: none"> <li>• Emigrations since the 1990s, accelerated since EU accession</li> <li>• Since 2000 largely spontaneous developments leading to a dual labor market and ULC in check</li> </ul>
<b>Financial market</b>	<p><b>Moderate instability</b></p> <ul style="list-style-type: none"> <li>• Small and medium size private banks failures</li> <li>• Further rise of state ownership and control of banks</li> </ul>	<p><b>Stability</b></p> <ul style="list-style-type: none"> <li>• No crisis; stable and growth oriented financial system, not very sophisticated</li> <li>• Extended foreign ownership; regulations often more strictly and timely implemented than in most EU countries</li> </ul>
<b>Industrial and investment policies</b>	<p><b>Passive</b></p> <ul style="list-style-type: none"> <li>• Active policies since 1936 („neither Kaleckian, nor Keynesian style intervention program“)</li> </ul>	<p><b>Passive</b></p> <ul style="list-style-type: none"> <li>• Promoted inflows of FDI and EU funds, and special economic zones</li> <li>• More active since 2016</li> </ul>

# Labor market: Wage and unit labor cost (ULC) developments

- 2000s: Important largely spontaneous developments
- Effect of the early 2000s economic slowdown and resulting high unemployment (see slide 5)
- Development of a **dual labor market**: permanent vs. temporary employment
  - **Permanent**: open-ended labor contracts
  - **Temporary**: atypical contract forms (civil law contracts) and fixed-term contracts ("temporary employment") => increased flexibility of the labor market
- Crucial factor behind low ULC!
- And the international price competitiveness of Polish goods!

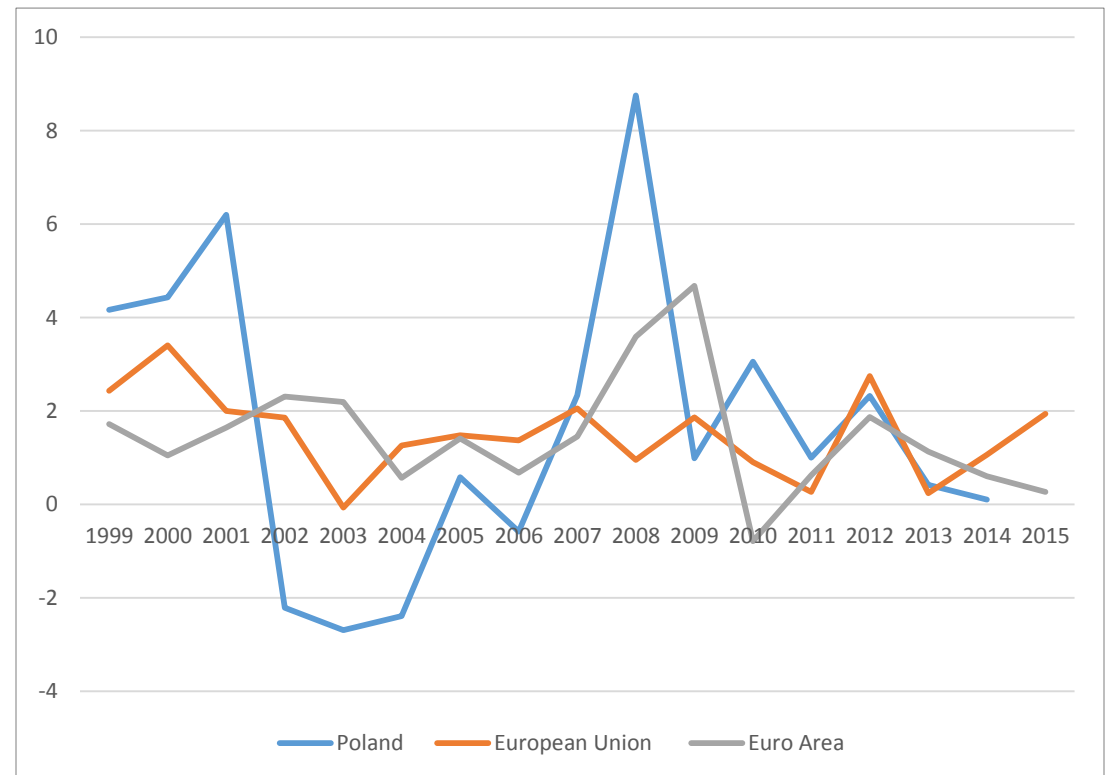
# Labor market in Poland after 2000: Wage and ULC developments (%)

## Ratio of the wage fund to GDP: Poland



Source: Central Statistical Office.

## ULC: Poland, the EU and the euro area



Source: OECD.

(5) Conclusions. What did go wrong?

# Answers to the two starting questions

- Q1: Poland did much better during the 2008+ period than during the 1929+ one **because of the combined effect of several factors**
- 5 groups of factors behind Poland's 2008+ performance
  1. Labor market developments resulting in low ULC
  2. Freely floating exchange rate and its shock absorber capacity
  3. Fiscal developments
  4. Financial sector stability
  5. „Good luck” factor
    - Euro 2012 football games (public investments!), „proper” timing of the crisis, unsophisticated banking system and so on



# Answers..., but caution!

- **Q2: Most factors responsible for Poland's superior performance during the 2008+ period (than in the 1929+ one) also contributed to her economic success vis-à-vis other EU countries**
- If things went economically that well, why did a major part of Polish society in 2015 reject policies conducted so far?
- **What went wrong then?**

# Final word of caution: Not an economic but a social crisis

- During 2008-15 period economic crisis was essentially avoided but **at a cost of a social one**
  - Labor market distortions => social crisis (disequilibria) => political outcomes of 2015
- Hypothesis: The social crisis was a price of the economic strategy in place since the early 1990s
  - The 2008+ crisis period accentuated the negative externalities of the strategy
  - What gave us success in the post-1989 period, also resulted in important negative side-effects (labor market, demographic processes)
- Wider interpretation: „countermovement idea” (Polanyi 1944)
  - Market societies are constituted by two opposing movements: **the laissez-faire (liberal, neoliberal) movement** to expand the scope of the market, and the **protective countermovement** that emerges to resist the disembedding of the economy (Block 2001:xxviii)
  - „Neoliberalism: oversold?” in the last 2-3 decades? (Ostry, Loungani, Furceri 2016)

Thank you!

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