

**Regional
Studies
Association
Polish Section**

The Geography of the Polish Crisis

**A Crisis of the Periphery
or a Periphery of the Crisis?**

**edited by
Grzegorz Gorzelak**

THE GEOGRAPHY OF THE POLISH CRISIS

A CRISIS OF THE PERIPHERY OR A PERIPHERY OF THE CRISIS?

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INTRODUCTORY REMARKS

This is the fourth study on the 'geography of the Polish crisis'. This time, it is set against a broader international context owing to the fact that the current global slowdown – which could turn into a lasting recession – has affected the Polish economy as it strongly depends on the processes taking place worldwide. The two previous economic downturns (1978-1982 and 1989-1992) and one serious slowdown (1999-2002) had their sources mainly within the Polish economy, whilst the origins of the current slowdown are external to Poland, although some conditions underpinning this process can undoubtedly be found within the Polish economy, too. At present, the Polish economy is 'importing' problems occurring globally, which tends to reinforce a natural slowdown in the 'weak' phase of the business cycle and also seems to strengthen its characteristic features (such as the poor condition of public finances, low level of innovation, heavy demand for external financing, large share of mortgages denominated in foreign currencies or currency options purchased by many companies).

As a matter of course, the causes, the progress and the measures taken were different in each of the above cases. The collapse of the real socialism economy was a completely different phenomenon than the transformation recession, which on the one hand was a consequence of the demise of this political and economic system, and on the other involved the emergence of a new system. Although the current crisis can only partially be compared to the slowdown at the beginning of this decade, it is pointed out that many close analogies can be drawn¹.

Our task is therefore not to compare the crises as such – but to analyse their spatial distribution, with the aim of examining the possible territorial distribution of the current crisis on the basis of the observed similarities in relation to the former crises. Consequently, we pose the question whether any common features can be identified between the territorial dimensions of the former economic downturns and the present situation? The answer to this question – or rather a set of answers to the subquestions asked – can be of cardinal importance for an understanding of the territorial distribution of the business cycles, and for economic and regional policies which should be implemented during a recession or a slowdown and which should counteract such processes (whenever it is possible).

A major difference between this and the former analyses lies in the fact that we investigated the previous crises after the fact, when a considerable period of time had passed since the analysed phenomena took place. In this case, we are trying to capture the examined events in the making. This means that our analysis is fraught with a great deal of uncertainty due to the fact that the underlying surveys were carried out in the early phase of the slowdown. In addition to that, nobody can predict how the situation will develop globally, and the existing forecasts are frequently mutually contradictory.

¹ In these alleged similarities, the internal and the external causes led to partial macroeconomic disequilibria, which in turn resulted in a deterioration of microeconomic conditions for conducting business activity and, ultimately, in the slowing down of economic growth. Subsequently, unemployment rose considerably and in effect public debt rapidly increased. In the years 1999-2002, the following syndrome was well visible: economic stagnation – lower employment – public debt. Using this concept, 2008 does indeed resemble 1998.

1. THE GLOBAL CRISIS — EXPECTATIONS AND REACTIONS

1.1. THE NATURE OF THE CRISIS

The world economy entered 2009 with a great dose of uncertainty and poor predictability of economic processes, as well as of political and social consequences of the crisis. The developed countries found themselves in the worst economic slump since the time of the Great Depression and, what is more, as the crisis keeps growing, one can hardly make any reasonable forecasts (if only due to the fact that we really do not know how deep is the current slump as the financial sector has not disclosed as yet the actual level of incurred losses). It is estimated that some countries such as Russia will not be able to present such an assessment before the second half of this year² due to the debt repayment structure of its enterprises. Therefore, we are facing a longer period of uncertainty and discrepant opinions concerning the reasons, effects and ways of dealing with the current crisis. It seems however that it is possible to delineate its global profile and to identify its components which do not give rise to many controversies. This is precisely the aim of the introductory part of the Report.

The current crisis was directly caused by a collapse of the financial markets which occurred as a result of a split between the market pricing of assets and their true economic value in consequence of an unprecedented growth of a speculative financial bubble. It consisted of various computer-aided derivative instruments which led to the appearance of virtual money that functioned as a kind of a financial pyramid³. Moreover, it is well known that at the bottom of the current crisis was a desire to gain undeserved riches by a whole spectrum of people, ranging from the heads of big financial institutions, buyers of homes who could not afford them, to plain consumers taking loans which they were unable to pay back. Most of them naively believed that prices of shares and homes would keep rising and hence the loans taken would be easy to repay and the investments made would bring enormous returns. This manner of the functioning of the financial system and the life on credit itself – also at the level of the state budgets of highly developed countries – was acceptable or even inspired or strengthened by the political and administrative system, especially in the US. These tendencies and attitudes were made possible due to the deregulation of the global financial system and creation of many new financial instruments. Differences will appear however upon a closer study of the factors involved.

One may also indicate some other reasons underlying the present slump. Encouraging borrowing activity on a massive scale among others was a result of treating consumption as a factor triggering the economic growth, which was additionally supported by some economic theories. Consumption, especially after 9/11, became a patriotic duty in the US, which was made easier to fulfil thanks to various innovations on the financial market. In a broader sense, the growth of the speculative bubble was the result of a kind of *techgnosis* which spread around the world (especially in the US) since the 1990s. It

² Leonid Grigoryev, *Monitoring mirovovo krizysa* (in Russian), Institute of Finance, Moscow, No. 2, pp.1-15, February 2009.

³ This 'virtual' money should not be identified with 'empty money'. If the main problem was really pumping large amounts of empty money into the economy, we would be facing a gigantic inflation, whereas we are threatened with deflation rather than inflation. The split between the pricing of financial assets and the so-called foundations, the derivative instruments market, huge financial leverages, etc. – all this is not money and does not mean creating empty money. In order to counteract the current crisis, attempts are made to increase money supply (great reductions of interest rates by the central banks of developed countries) and not to decrease it, which would have most likely taken place had the excess of money been the problem.

was a belief that due to a technological revolution based on the popularisation of computers and the Internet, information triumphed over matter. The programme document of the Republicans in their successful Congress campaign in 1994 – *The Magna Charta for the Knowledge Age* – was symptomatic in this respect. It was the concept that full control over information was to lead to ‘frictionless capitalism’, the perfect capitalism devoid of business cycles (Peter Schwartz’s concept of the ‘Long Boom’ and the idea of the New Economy). *Techgnosis* also found its expression in a belief that by using technical solutions (mathematical models for risk management), one might create financial market value without the fear of a catastrophe, which was a fundamental epistemological error.

The first, prevalent approach (the so-called market fundamentalism) is based on a claim that crises are natural for market economy: they come and go quite regularly, and fluctuate between fairly well-known indices of the economic downturn. Crises differ depending on the actors and sectors of the economy which either initiate the next crisis cycle or deepen it. It is argued that the present crisis is a combination of three processes: the dominant one, which is taking place in the ‘virtual’ economy of the financial sector (the slump on the subprime mortgage credit market and a legal blurring of the differences between investment and commercial banks that allowed the latter to raise an indiscriminate level of the debt to asset ratio), and two subsidiary processes located mainly on the collapsing real estate market and on the relatively weak (in comparison to the earlier decade) consumer goods market (due to a high level of household debt). Like any previous cyclical crisis in market economy, the current one must reach its bottom (it is expected that such a moment will occur in early spring) to reach a new equilibrium (according to some experts, e.g. Ben Bernanke and Alan Greenspan, this process is to begin in autumn 2009)⁴. In other words, the market – as usual – will undergo a gradual though slow self-correction process. Thus, according to such an interpretation, this is ‘a new form in the old setting’ and the changes caused by the crisis will mainly apply to the scope of control over financial flows and instruments governed by mathematical models which – in spite of their apparent objectivity and precision – have in fact contributed to the increase of a disequilibrium and the increase of the impact of various financial leverages. The crisis will also have a ‘healing’ effect, since it will ‘cleanse’ economic structures of inefficient companies and ventures. This process may be obstructed by excessive state intervention as governments may try to keep up the operations of some companies which, though inefficient, are critical for preserving the country’s social peace.

The second approach – in comparison to the approach presented above – includes a revised assessment of the depth of the current crisis cycle. The basic arguments of the proponents of this approach (e.g. Joseph Stiglitz, Paul Krugman, George Soros) may be summed up in the following way: long-term cycles in market economy are not self-generated regardless of the fact that they recur with great regularity. Each one has its own causes and produces different effects⁵. What is more, each of them is unique in historical terms and leads to profound social and political changes. The crisis of the early 1920s (1905-1920) concluded the period of ‘wild capitalism’ and paved the way for the economies of scale and the synchronisation of financial and industrial structures. The Great Depression of 1928-1933, which practically continued until 1948, closed the chapter of ‘non-regulated capitalism’, led to the acceptance of the idea of ‘Big Government’ and the growing popularity of the welfare state. The crisis of 1973-1982, which was at the same time a period of transformation from a resource-intensive econ-

⁴ Source: <http://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm>, 13.01.2009.

⁵ An interview with George Soros, *The New York Review of Books*, Vol. 55, No. 8, 15 May 2008. Also available on: <http://www.nybooks.com/articles/21352>, 26.02.2009.

omy to a knowledge-intensive or information economy, closed the era of the Keynesian development model and launched a long – and let us add – global - career of neoliberalism. The current crisis, without changing the informative, pro-innovative character of social and economic processes, leads to the rejection of the neoliberal model. At the same time, it is the first truly global crisis, a kind of a ‘perfect storm’ in which several processes occurred simultaneously, thus giving an impetus to the crisis spiral to a point from which a self-regulated exit is impossible. That is why there is a need for the return of the state with its strong institutions, capable of performing regulatory functions and aided by large-scale support provided by the central banks. When writing about the Great Depression of the 1930s, Eric Hobsbawm noted that it forced all governments to start ruling; it made the state take over control over those sectors which it had earlier ignored or avoided. Such an analysis assumes that without an active and determined support of the state which pumps billions of dollars or euros into the banking system and actively regulates the financial system, the market economy - as we have known it – will not be able to overcome the slump. Even with the state’s assistance, the process will be long and may last several years and the true ‘bottom’ of the crisis is still ahead of us⁶. The basic differences of opinion among this group concern not so much the diagnosis of the crisis, but rather the ideas how to alleviate its effects or to curb it (for instance, by a more strict regulation of the financial market, purchase of debts, labour market stimulation, nationalisation of the banking sector⁷ and banning certain transactions on the derivative market, etc.).

The third approach – seems to be the most diversified in the interpretation and methodology of assessment and it focuses not on the quantitative (like the earlier two interpretations) but on the qualitative difference between the current and previous crises (e.g. Shimshon Bichler, Jonathan Nitzan, Immanuel Wallerstein, Manuel F. Montes, Vladimir Popov, Peter Gowan)⁸. The methodological diversity of interpretations makes it impossible to summarise accurately individual problems, although one can find certain common features.

Firstly, the current crisis does not have its roots in the finance sector, but it is the crisis of the relations between the state and financial institutions which corrupted the world of politics and state management to the extent which made any state control over financial institutions impossible. What is more, it actively supported processes of contracting loans with practically no chances of repayment⁹.

Secondly, the facade of a ‘normal market cycle’ was hiding processes which fundamentally changed the principles on which the current market mechanisms were based. The symptoms of such qualitative change processes include for instance: a discrepancy between ‘virtual’ (financial) and ‘real’ (production) capitals, the changing concept of ‘profit’ (the so-called differential accumulation), impossibility of assessing the ‘value’ of shares, the absence of bridges between the banking and other sectors of the

⁶ Joseph Stiglitz, “Capitalist Fools”, *Vanity Fair*, 10 December 2008. The article is also available on: <http://www.commondreams.org/view/2008/12/10-1>, 26.02.2009. A similar opinion has recently been voiced by Warren Buffet.

⁷ According to Krzysztof Rybiński, a number of analyses suggest a prospective radical increase of indebtedness of those countries which nationalised banks on the verge of bankruptcy, and a need to pursue a high inflation policy in order to repay those debts, which may lead to a considerable depreciation of the currencies of such countries or even to their bankruptcy. He also claims that the countries that take over such banks may become victims of an attack (the anticipated problems the with repayment of debts resulting from the nationalisation of banks). The only solution may be sought in increasing inflation, as is recommended for the US by Kenneth Rogoff, the former IMF chief economic counsellor, which however carries the risk of a major depreciation of the dollar after the end of the crisis (unpublished post-doctoral lecture, March 2009, Warsaw School of Economics).

⁸ Source: <http://globalsociology.edublogs.org/2008/10/11/wallerstein-on-the-financial-crisis/>, 26.02.2009.

⁹ Peter Gowan, “Crisis in the Heartland”, *New Left Review*, January-February 2009, No. 55. The article is also available on: <http://www.newleftreview.org/A2759>, 26.02.2009.

economy as a result of which banks' lending activity is still feeble, in spite of the extra capital being injected into the system, etc.¹⁰

Thirdly, a simultaneous accumulation of all the slump factors and the self-perpetuating spiral of the crisis between individual sectors of the economy inducing the crisis of the entire market mechanism have reached a point in which well-known rescue methods have to fail. According to this opinion, the slump in the financial sector combined with the virtual collapse of the automobile and building sectors is drawing other sectors of the economy into an unprecedented situation which is assessed in terms of quality rather than quantity, that is as a potential for a fundamental change of the existing social structures and structures of power. These processes may result in a profound shift of power and wealth within wealthy economies, leading towards an increase of inequalities, and of the role of the state which in consequence may redefine the role of democratic mechanisms¹¹.

Some authors (Zygmunt Bauman, Bohdan Jałowiecki) also suggest that the contemporary crisis is a result of social changes that were taking place in the last twenty or thirty years and which consisted in a decomposition of the social structure and the resultant transformation of the political organisation of the society. The conflicting social classes that were the balancing factor for the European and American societies from the mid-19th century until ca the 1970s, have now become destructured. Interests of huge social classes, such as the middle class or the working class, were championed by political parties and those of the latter were additionally defended by trade unions. The unions acted in the interest of the masses of employees fighting for an eight-hour workday and paid holidays as well as other social benefits (health insurance, retirement pensions, etc.). Transformation of the middle class was also vital in the overall process of social change. For decades, it used to be a stabilising factor for the political system. Currently, we are witnessing a rapid polarisation which splits the middle class into two blocks: one, comprising small businesses, which is constantly threatened with changes in the global market and the second - a newly emerging metropolitan class taking advantage of the global economy.

People became uprooted from their local communities that shared a certain set of common values, they lost much of their earlier backing and their sense of security was undermined by the threat of terrorism overemphasised by the governments and the media. They tried to compensate for it by maximising the current consumption in spite of a shortage of means, because affluence was artificially created by an overblown financial system which produced virtual money and an illusion of wealth. The media played a crucial role, too, by propagating consumerist attitudes (large houses, expensive cars, designers' dresses, trendy schools for children, etc.). Irrational market behaviours in the time of prosperity were kept up in the period of the recession, only the direction has changed: from euphoric faith in continuous growth to a sudden breakdown of faith and pessimistic perspectives. This further increases the downturn in consumption and investment and contributes even further to the recession in the real economy.

It is pointed out at the same time that the current crisis is taking place in an economy that is globalised as never before, with many forces which only temporarily balance one another and often lack stability. One of the most important axes of the global economy is the imbalance of international trade in which 'cheap' countries (mainly China and India) as well as Japan credit the economies of rich countries (such

¹⁰ Source: <http://bnarchives.yorku.ca/250/>, 26.02.2009.

¹¹ Source: http://www.chinadaily.com.cn/china/2009-01/22/content_7420728.htm, 26.02.2009;
http://http-server.carleton.ca/~vpopov/documents/Russian_Analytical_Digest_Febr2009.pdf, 26.02.2009.

as the US) and which therefore can develop much faster, finding an increasing external demand for their products and services. However, the financial imbalance proved to be totally unstable, as it was based to a great extent on a fraudulent 'pyramid'. At the same time, there was a clash between the speed of globalisation and the slow process of control through regulatory mechanisms. There also appeared considerable differences in the time scale of businesses operating under real economy conditions (medium and long-term perspectives) and of financial investors looking for immediate profits. The impact of dispersed shareholding on the operations of business entities and the relation between individualised social protection and the functioning of the public sector (that is the consequences of what Manuel Castells calls the 'individualisation of socialisation') remains unclear, too.

One can point out some other social reasons for the current crisis which may be considered to be a verification of the myth of the knowledge-based economy and a neoliberal model of the *workfare state*. Under the impact of the competitive pressure of developing countries, it substituted the welfare state model which was the dominant model after World War II (as a matter of fact, only the Scandinavian countries managed to redefine the welfare state to such an extent that they were able to create competitive and innovative economies with a considerable participation of the state, public services and redistribution).

The enfranchisement of the working class resulting from the housing schemes in Margaret Thatcher's Britain and Ronald Reagan's United States was supposed to reduce the potential of redistribution claims in exchange for social advancement to the middle class status. It was a success only in Britain, because it was carried out twenty years earlier. The situation became complicated at the beginning of the 21st century with the delocation of industry due to globalisation processes, when well-paid jobs in factories were substituted with poorly paid ones in trade and the service sector. This transformation brought about the rise of poor jobs on a massive scale. The neoliberal state had to subsidise such jobs by means of such instruments as a negative income tax, food vouchers and, finally, subprime mortgage credits.

The situation was made additionally complicated by the waning myth of the knowledge-based economy which offered an educational advancement for the blue-collar class threatened with pauperisation. The advancement meant access to white-collar jobs and the most attractive positions in creative industries: IT specialists, software programmers, scientists, advertisement experts, etc. The burst of the dot-com bubble in the 21st century resulted in the stratification process within the creative class itself, and impoverishment of its greater part. This process hit among others IT specialists and scientists, whose real salaries even before the crisis dropped by 10-15 per cent¹². It was the consequence of the globalisation and growth of offshoring practices, including 'knowledge services'. On top of that, the commercial value of knowledge, or broadly speaking, creative products went down due to the increased role of the Internet which started to provide such products free of charge under open source facility. Owing to these processes, the development of knowledge-based economy in developed countries was curbed and this in turn contributed to the onset of the current crisis.

In accordance with the above interpretations, the current crisis will rock the foundations of market economy and change the existing international economic or even political order. Any analogies to previous crises are questionable and instruments for overcoming the crisis are not known.

¹² It is the subject of Richard Florida's recent book *Who's Your City?: How the Creative Economy Is Making Where to Live the Most Important Decision of Your Life*, Basic Books, 2008.

All the above explanations should be treated, to some extent, as mutually complementary. Capitalist economy has always been accompanied by crises and there is nothing new in it. Dynamic economies have always encountered ups and downs. This is the price of any rapid growth. However, people and politicians want the economy to be at the same time dynamic and stable which, at least so far, has been impossible. A quick growth causes an increasing imbalance and that in turn generates tensions. The growth of a new economy brings about the withering of the old one. As a result, we deal with a continuous fluctuation. Methods of production and operations which were satisfactory yesterday become obsolete today, and those of the present day will be obsolete tomorrow. The 'creative destruction' is a precondition for progress and development, yet this creative destruction also triggers tensions and crises. The crises in turn cleanse the economy and restore equilibrium, which however frequently involves high costs, both economic and social.

It seems obvious today that the current crisis has its roots in irregularities and large-scale financial speculations. Financial market turbulences occur quite frequently but they need not always lead to real difficulties, like a recession or a slowdown. In the past, crises of the magnitude of the present one have always produced changes in the functioning of capitalism.

1.2. THE DEPTH OF THE CRISIS

The crisis is affecting particular economies with varied intensity. For instance, Japan has been hit by the greatest recession in sixty years and its exports have dropped by half; the US records deteriorating economic ratios (negative growth rate, continuing decline of the stock market, drastic drop of real estate prices, etc.) and social indices (fast increase of unemployment, falling demand). In Europe which is experiencing a slowdown, the situation of particular economies is considerably differentiated – from a major collapse of such economies as Iceland and Latvia, through serious difficulties of Hungary and southern EU countries to a relatively stable, though greatly weakened, economic situation in Poland, the Czech Republic, Slovakia and Slovenia.

A drop in consumer demand is an important crisis-inductive factor. It is mainly generated by psychological reactions to recession, but it is also a result of the diminished amount of financial assets available to people (these assets were to a great extent 'virtual'). Thus, one can notice a rapid increase in the level of household savings that has lowered the aggregate demand and deepened the crisis. For example, American consumers who until recently used to spend annually USD 8 trillion (in comparison to USD 1 trillion in China), have only now begun to reconstruct their savings rate which, until recently, was almost zero.

According to Dani Rodrik of Harvard University, one of the most alarming elements of the present situation is a very low level of knowledge about the real debt rate of financial institutions, the volume of 'toxic debts' and impossibility of making a genuine assessment to what extent the 'good debts' may turn into 'toxic debts' due to the growing number of the crisis areas and the changed financial circumstances of many households¹³. It is estimated that the US economy alone and mainly its financial sector requires support in the amount of USD 3 trillion, of which almost one third has already been guaranteed by the Congress¹⁴. The German government has guaranteed support to its own financial sector in

¹³ Dani Rodrik, "A Time to Experiment". The article is also available on: <http://www.project-syndicate.org/commentary/rodrik27>, 26.02.2009.

¹⁴ Source: <http://www.guardian.co.uk/world/2009/feb/10/senate-passes-obama-stimulus-plan>, 10.02.2009.

the amount of EUR 50 billion (more than doubling this amount after December 2009), the French government – EUR 26 billion, the British government – EUR 23 billion. Apart from the US, the largest financial support for the finance sector was promised by the government of China – in the amount of USD 586 billion¹⁵. The size of potential losses of the banking sector is alarming especially when its assets exceed a country's GDP. This ratio has triggered exceptionally powerful effects in Iceland (where bank assets were eleven times the value of the country's GDP). Such a dangerous ratio is also found in some banks in the UK, Ireland, the Netherlands and Austria, where the value of the assets of the banking sectors is several times the value of the GDP and the need for additional support for the finance sector may undermine the credit rating of these countries. This in turn could cause a chain reaction leading to a drastic increase of the cost of public debt and the bankruptcy of some countries. Decreased leverage in the financial sector will have a negative effect on the price of assets, which will cause further deterioration of the condition of the sector. From the very beginning of the crisis, the level of financial leverage of most international banks has not changed or it has decreased only marginally. The financial leverage of such banks as Bank of America, Barclays, Deutsche Bank exceeds a 40:1 ratio (asset-to-equity). The average such ratio for most of the banks is ca 30:1 (twenty years ago, the leverage of most of the financial institutions did not exceed a 15:1 ratio).

Until now (i.e. the end of March 2009), the major world economies declared an unprecedented capital support in the amount of over USD 1.5 trillion. What is important, only within the last two months the declared bailout amounts increased by ca 15 to 18 per cent on average (with the exception of Germany which almost doubled its rescue package). This may mean two things – first, that the level of intervention cannot be precisely estimated and second, that we have not yet reached the nadir of the crisis in the financial sector. Some American analysts expect that this will happen in the middle of this year¹⁶, although the most recent forecasts of the IMF from the end of March 2009 predict that the recovery of world economy is more probable in 2010. According to the IMF, a later date of the crisis' end is more probable than the earlier one. At the same time, one should bear in mind that an economic recession has a different dynamics than a financial crisis (it comes with delay) and actual processes that might occur in the future can hardly be assessed today.

1.3. THE SENSITIVE SECTORS - A GLOBAL LOOK

Although it is difficult to assess how heavily individual sectors have been hit by the crisis, one may however indicate a few of them that have, so far at least, suffered the most. Without any doubt, one should list the following:

- **Banking and finance sector** – suffering the worst collapse since the crisis of the 1930s. The largest banks and financial institutions have so far suffered the heaviest losses measured in billions: in 2008, for instance, the Royal Bank of Scotland lost over GBP 20 million. One of the major banks of Spain, Santander (affiliated with the Royal Bank of Scotland) has lost 17 per cent of its stock exchange value since the beginning of this year. According to Investors TFI, by the end of 2008 the loss

¹⁵ Source: <http://www.guardian.co.uk/environment/2008/nov/28/china-climate-change> (China), 28.11.2009.

<http://news.bbc.co.uk/2/hi/business/7825513.stm> (Germany),

13.01.2009. <http://news.bbc.co.uk/2/hi/business/7864942.stm> (France), 2.02.2009.

¹⁶ cf. <http://www.theglobeandmail.com/servlet/story/RTGAM.20090223.wferguson0223/BNStory/crashandrecovery/home>, 23.02.2009.

of Deutsche Bank amounted to EUR 4.8 billion. The shares of another giant – British Barclays Bank – dropped in 2008 by 40 per cent, while those of Citigroup – by 90 per cent. The American-based Merrill Lynch suffered a loss of ca USD 21.5 billion and, most probably, its problems are far from being over¹⁷. Citigroup has reported losses for the past five quarters. This time, its losses for the fourth quarter of 2008 amounted to net USD 8.3 billion. Examples could be multiplied, but the data cited above are enough to render the scale of the problem. Only in the US where the banking sector suffered the most, in 2008, the banks used USD 166 billion (of 700 billion approved by the Congress) to ensure financial liquidity. It is estimated that the US would have to spend ca USD 1.5 trillion in an attempt to rescue the whole banking sector. The scale of the collapse of the banking sector in the US may be well judged by the following comparison: the current capitalisation of Citigroup (which was valued at ca USD 300 billion before the crisis) approximates that of PKO BP SA (ca USD 7 billion).

According to IMF estimates, in January 2009 the losses of global financial institutions in the US and in Europe amounted to ca USD 2 trillion. Until today, half of that amount has already been injected into the banking system and more extra capital will soon be needed, as the scale of losses keeps growing as the crisis deepens. Taking into account the fact that the stock market capitalisation of the American banking sector amounts to ca USD 800 billion, pumping extra capital in the amount of USD 1 trillion by the American government (for lack of any interested party from the private sector) shall signify a *de facto* partial or total nationalisation;

- **Construction and real estate sector** is the second biggest loser, in terms of its losses. The crisis in that sector also affects other industries, like metallurgy (reinforcing steel), furniture, chemicals (carpets and floorings), cement, timber processing and building machinery (e.g. the American leader in the sector – Caterpillar – already laid off 20 000 employees in 2008 and plans to lay off 20 000 more in 2009). Contracts in the above mentioned sectors dropped on average by 25-30 per cent in 2008. Virtually all developed economies and also to a lesser degree China have recorded a decrease in the sale of new real estate and a stagnation on the real estate secondary market. In December 2008 – in comparison to December 2007 – the number of new houses sold in the US decreased by 44.8 per cent and, in comparison to July 2006 – by 76 per cent. The prices of new houses in the US dropped on average by 21 per cent in 2008. One fifth of all the houses sold in 2008 came from foreclosures, that is these were houses that were taken over by banks for bad debts, while 11 per cent of them came from short sales, in which the sellers were in negative equity¹⁸. The situation in Britain is hardly any better. In the third quarter of 2008, over 13 000 owners had to release titles to their real property to the banks because of their outstanding debts – 100 per cent more than in the same period in 2007¹⁹. Even China which recorded an increase in real estate prices for most of 2008 had to face a price drop in December last year²⁰.
- A considerable decrease of production in the **automotive industry** carries, as in the case of the building sector, serious consequences for a number of cooperating industries (it is estimated that ca 20 per cent of American companies in the machine-building industry are in cooperative agreements with the automotive industry). In 2008, the sale of automobiles dropped by 18 per cent in compari-

¹⁷ Source: <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/4317296/Barclays-RBS-and-Lloyds-need-80bn-more-in-capital-analyst-warns.html>, 22.01.2009.

¹⁸ Source: <http://cnmoneymoney.com>, 2.11.2009.

¹⁹ Source: <http://www.telegraph.co.uk/finance/financetopics/recession/4316964/UK-recession-its-almost-official.html>, 23.01.2009.

²⁰ Source: http://www.shanghaidaily.com/sp/article/2009/200901/20090123/article_389005.htm, 23.01.2009.

son to 2007 (the heaviest losses were suffered by the Big Three carmakers: GM – Ford – Chrysler). In Britain, the decrease was even more severe and amounted to 21 per cent (in the EU it was somewhat smaller, as it did not exceed 7 per cent per year, but in December 2008 it grew 17 per cent in comparison to 2007). In some cases, the accumulated losses reached catastrophic proportions, for instance in December 2008 profits from the sale of Renault cars dropped by 78 per cent in comparison to the previous year. Naturally, this translates into mass layoffs and a significant increase of unemployment. Until today, the American economy has lost 3.6 million jobs. According to the most pessimistic scenario involving the bankruptcy of the Big Three, it is estimated that 240 000 employees would lose their jobs, 980 000 of those employed in companies cooperating directly with the Big Three and 1.7 million more – in all the companies associated with the sector²¹. In the Russian automobile sector, cars including even the newest Korean models started to be sold in barter transactions (for the first time since the banking crisis of 1998)²².

- **Transport** – a decrease in production resulted in a lower level of transport demand. For instance, the Russian railways recorded a drop in the freight volumes by 38 per cent and the so-called Baltic Dry Index²³ showed a decrease in freight volumes by 37 per cent (2008). An analogous measuring tool on the global scale – the Bloomberg Dry Ship Index – recorded a decrease of 30 per cent, while the prices in the Baltic Dry Index dropped by 95 per cent²⁴. Road transport in the US decreased by ca 6 per cent (2008).
- **Power industry** – the decreased production involved a drop in the demand for electrical power which, in many cases, signified a lower demand for coal – especially in the Chinese and Indian power sectors. For instance, in January 2009, power production decreased by 7.1 per cent²⁵ in China, and the drop in electrical power production in Ukraine in 2009 is estimated at around 10 per cent.
- Prices of **raw commodities** are unstable as well. After a period of dramatic drops in 2008, some of them have begun to grow recently (copper, lead, aluminium, crude oil), yet this is a wobbling growth, very much dependent on the USD exchange rates. Long-term trends are hard to predict.
- The **IT sector** will most probably record a fall. The sale of PCs is expected to decline by 10 per cent, which is a three times larger contraction than in 2001. This decline results from the fact that when faced with financial instability, companies and households alike delay the purchase of new computers, extending the period of use of the existing ones. This decline will affect both the mature and rising markets²⁶. However, there are no uniform opinions on this subject, since investments in IT are nowadays the best means for increasing labour efficiency. The IT sector seems to face a greater problem i.e. a rapid shortage of venture capital which is indispensable for developing new technologies. At the same time, this will be a period of market restructuring when big players such as Google or Apple, sitting on huge amounts of cash, will be buying their weakening competitors or companies providing complementary technologies.

²¹ Calculated on the basis of data provided in: <http://www.carmagazine.co.uk/News/Search-Results/Industry-News/Crunch-watch-Feb-09-the-auto-industry-in-crisis/>, 26.02.2009.
http://news.google.ca/news?hl=en&q=auto+industry+and+crisis+and+2009&rlz=1W1GPEA_en&um=1&ie=UTF-8&ei=FOeUSdbPCJzgM6jv1fYL&sa=X&oi=news_result&resnum=4&ct=title.

²² Source: New York Times, 8 February 2009.

²³ Baltic Dry Index measures the volume of sea transport in the Baltic countries of such bulk goods as cereals, coal, ore, etc.

²⁴ Source: <http://norris.blogs.nytimes.com/2008/01/17/world-recession/?scp=9&sq=Latin+per+cent20America+per+cent20recession&st=,> 17.01.2009.

²⁵ Source: http://www.shanghaidaily.com/sp/article/2008/200812/20081212/article_384172.htm, 12.12.2008.

²⁶ Source: http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=9128838&intsrc=hm_list, 2.03.2009.

- **Some segments of the services market**, especially those providing services for the most wealthy classes such as private schools, private airplane and yacht rental, luxury tourism²⁷.
- Difficulties also appear on the **luxury goods market**, where for example the demand on the art market decreased by 50 per cent²⁸. The diamond market which until September 2008 had been constantly growing for over twenty years, within the last three months dropped by 30 per cent. It will become a serious economic and social problem for countries such as Botswana where diamonds accounted for two thirds of its exports. The Russian Federation commenced intervention purchases of diamonds from the largest (state-owned) Alrosa company to prevent a sudden drop of market prices. The government of Angola has taken similar steps²⁹. The gold market – in spite of its greatly unsteady prices – is the only luxury market which has recorded an increase in both price and demand³⁰.

Unemployment is a major symptom of any crisis as it is one of its most visible and socially significant effects. This problem is being made even more ominous by the mass-media. For instance, all the mass-media in the US were full of news about the so called Bloody Week (26-31 January 2009) with 71 000 people losing jobs on Monday and additional 14 000 on Wednesday³¹. What is characteristic is the process of getting rid of some employees and at the same time giving salary rises to a group of 'indispensable' personnel³². In fact, the unemployment rate – which has been growing pretty fast – is slightly lower so far. In Europe as well as in Poland, it is currently not as acute as several or a dozen years ago (e.g. in Spain in the mid-1990s and in Poland at the beginning of the century it reached almost 20 per cent, and was slightly lower in Ireland and Finland). At the same time, no one expects unemployment caused by the current crisis to reach the disastrously high rates of the Great Depression (30-40 per cent).

The growing unemployment will most likely have an impact on social criminalisation, the rapid growth of the shadow economy and the increase of organised crime – the first effects of these processes have already become noticeable³³ (although in Poland, for instance, the crime rate has recently considerably dropped). One of the consequences of unemployment is remigration, mainly from big cities to villages or small towns – places of the migrants' origin. For example, it is estimated that in 2008 out of 100 million of migrant workers in China, 20 million went back to places where they had lived before and another 10 million are planning to return³⁴. Similar processes may be observed on a large scale in Argentina, Bolivia and Brazil. Unemployment will have an obvious influence on the deepening of social inequalities, yet this process will operate on a different scale than we are familiar with. In the US, one can already areas of 'new poverty' appearing in places which until now have been exclusively wealthy and thus forming a 'mosaic of wealth and poverty'. In some cases, the formerly well-paid people living in 'good neighbourhoods' remain there after they lose their jobs and either remain unemployed or take up jobs which are much less paid, and thus experience pauperisation and social exclusion³⁵.

²⁷ Source: <http://www.telegraph.co.uk/education/educationnews/3508764/Recession-forces-many-to-give-up-private-schools.html>, 24.11.2008.

²⁸ Source: <http://www.guardian.co.uk/business/2009/jan/13/recession-unemploymentdata>, 12.01.2009.

²⁹ Source: <http://www.nytimes.com/2009/02/21/business/21diamonds.html>, 20.02.2009.

³⁰ Source : <http://gold-2009.com/gold-price-2009>, 6.03.2009.

³¹ Source: <http://cnnmoney> (26-30.01.2009).

³² Nice Work if You Can Get it, *The New Yorker*, 2 March 2009, p. 23.

³³ Source: <http://www.ft.com>, 6.01.2009

³⁴ Source: <http://www.sfgate.com>, 22.01.2009.

³⁵ "Forced Down the Job Ladder, From Executive Pay to Hourly Wage", *The New York Times*, 1 March 2009, p. 1.

1.4. ANTI-CRISIS MEASURES TAKEN SO FAR

As far as the crisis recovery trends are concerned, any remedial measures taken so far have not been effective. The present crisis is first of all a crisis of confidence (this is what mainly prompted the collapse of the financial sector). Despite announcements and implementation of anti-crisis packages in the US, in the EU's developed countries, and in Japan, confidence has not been restored, which is reflected in the constantly falling stock indices. This, in turn, is aggravating the crisis in the sphere of real economy: GDP forecasts are getting worse and worse. As mentioned above, the capitalisation of the companies listed on the world's stock exchanges in February 2009 amounted to USD 28.8 trillion, as compared to USD 32.6 trillion in December 2008. The March IMF forecast predicts that the global GDP will decrease by approximately -0.5 to -1.5 per cent in the current year, i.e. by 1 - 1.5 percentage points less than the January forecast predicted (a decrease of the global product is predicted for the first time, which also means that this phenomenon would occur for the first time in sixty years). A projected decrease in developed countries is -3 to -3.5 per cent (also by 1 - 1.5 percentage points more than the January forecast predicted); however, a growth at the level of 1.5 to 2.5 per cent (by 1 to 2 percentage points less than in the January forecast)³⁶ is anticipated in developing countries in the group of the so-called emerging markets. It is so despite the fact that the currently announced fiscal measures will amount to 1.8 per cent of GDP of the G-20 countries. In the US, additional fiscal measures will total over 5 per cent of GDP.

The main focus of the anti-crisis efforts has been shifted to the fiscal policy as the monetary policy has practically exhausted its possibilities. At a close to zero nominal interest rate of the US central bank, any further decrease is impossible. The falling inflation reduces effectiveness of this instrument, thus making the real rate decrease at a slower pace. If deflation becomes a fact, the real interest rate will obviously increase further, eliminating any stimulating impact of the monetary policy.

The increase of expenditures stimulating the economy will cause an increase of the state fiscal deficit. According to the IMF³⁷, the deficit in the G-20 developed countries will grow to 8 per cent of GDP in 2009, which will cause an increase of public debt: the debt will increase by 14.5 percentage points in relation to the GDP in developed countries. The increase of the deficit and debt may endanger the fiscal stability of developed countries, triggering unpredictable consequences³⁸. According to an IMF forecast, the debt to GDP ratio in developed countries in 2014 will be higher by 25 percentage points. It may prompt a shakeout of the fiscal balance and, in a pessimistic scenario, a loss of confidence in the state assets (treasury bonds), with huge negative consequences for the financial sector's stability. The final results will obviously depend on the effectiveness and promptness of the recovery from the crisis. The more effective the measures prove to be and the sooner they begin to work, the smaller the danger for the stability of public finances.

Obviously, in a shorter time horizon, an increase of the fiscal deficit in developed countries will stimulate needs for its financing, which will further trigger the demand for the inflow of foreign capital into these countries, and at the same time will enhance the so-called crowding-out effect (whereby private capital is absorbed to finance the state fiscal deficit rather than to finance private investments). From this point of view, possibilities to use fiscal stimulation in developing countries (including Poland) are

³⁶ Data according to: *Group of Twenty: Global Economic Policies and Prospects*, IMF, March 2009. Similar trends are visible in OECD forecasts.

³⁷ Source: IMF, March 2009.

³⁸ Cf. e.g. *The State of Public Finance: Outlook and Medium Term Policies After 2008 Crisis*, IMF, 2009.

significantly deteriorating due to the pressure for the inflow of capital to developed countries, and their so-called better credit standing. This in turn limits the possibilities to counteract the crisis in weaker countries.

On the other hand, it may be a factor limiting protectionist pressures, since a growing protectionism in developed countries may ricochet on the opportunities to attract savings from developing countries, necessary to finance the fiscal deficit.

It is worth noticing that an unprecedented increase of public expenditure for the development of new technologies and scientific and technical infrastructure is an essential element of anti-crisis efforts, especially in the US. The scientific and technological component of Barack Obama's stimulus package exceeds USD 120 billion. It will be used for an increased financing of basic research and development of new, 'green' energy technologies, the smart grid, broadband Internet, and a computerised health system. The expenditures are accompanied by the hope that they will lead to a number of technological breakthroughs of a significance similar to such inventions from the beginning of the 20th century as synthesis of ammonia. An opportunity for a 'new capitalism' would appear as a result, with new industries being sources of jobs and growth. At the same time, it is also important to restore confidence in science as the 'guarantor of the future'.

Similar trends are being observed in China. The 2009 budget expenditure was considerably changed between November 2008 and March 2009, reducing spending in infrastructure and considerably increasing the budget for the development of technologies and industry³⁹.

1.5. LONG-TERM PROSPECTS

Most generally, the scope, depth and duration of the present global slump will depend of the processes taking place in the most developed countries of the world (the US and the European Union countries) and on their relationships with China, India and Japan. Two extreme scenarios may be outlined:

- The US, followed also by Western countries, will relatively quickly manage to come out of the recession and reopen its markets to cheap products (and services) from China (as well as India and other fast developing countries). The countries, especially China, are not experiencing a collapse of their economies, and thereby will not become the scene of dramatic social and political processes. The global economy, after a momentary disturbance, will be gradually returning to the state of an 'unstable equilibrium', in which the US will incur debts in countries supplying it with cheaper goods and services, while these countries will still be able to grow relatively fast. The level of disequilibrium will be gradually decreasing. Raw commodity prices will grow, thus helping the countries dependent on raw commodity export (Russia, the Arab countries, Venezuela, etc.) to avoid a slump and a political implosion. 'Chimerica' will survive in a slightly modified, better balanced form, and globalisation – after a momentary slowdown – will continue to expand, but in a rationalised global financial system. These positive processes will have a positive impact on the most advanced countries (including especially Japan, the largest creditor of the US) which will come out of the recession in several months.

³⁹ *The Economist*, 19 March 2009.

- A prolonged recession in Western countries (US, Europe) will trigger a significant decline in the demand for cheap goods and services, also as a result of strengthened protectionist attitudes. The economies of the countries providing cheap goods and services, as well as the countries providing raw commodities are in a lasting, deep recession (similar to the Great Depression when the raw commodity countries with weak economies suffered much heavier losses than developed countries, because they were not able to overcome it, among others due to a low internal demand). This will prompt the demise of the currently 'vulnerable' political systems in those countries and might even result in populist revolutions (the groups mostly inclined to start a revolution are the ones whose growing aspirations were suddenly broken) – causing reverse consequences related to their dramatically weakened development abilities and a temporary withdrawal from economic life. In highly developed countries, the recession will last even a few years. Globalisation will be restrained, and the division into 'rich' countries (able to manufacture highly-processed goods) and 'poor' ones (supplying raw commodities and simple products) will go back to the situation from around 1980. At the moment, there are no factors allowing to exclude the very unfavourable second scenario.
- A half-way scenario is obviously also possible, assuming that the strongest OECD countries and China will overcome the crisis in two to three years and will start a relatively quick economic growth around 2011 (the US will be the first one to achieve it). They will also be the drivers of a new global prosperity (similar to the one in the last twenty years), but will operate in different social and international conditions. This scenario assumes, however, that not all the countries will come out of the crisis so quickly; moreover – it assumes that a vast majority of countries will continue to exist on the edge of collapse, and many of them will get through the period only thanks to a global charitable (support) effort. Niall Ferguson of Harvard University predicts that there will be bloodshed, because the different speeds of overcoming the crisis will cause such political and social tensions that armed conflicts between countries (and also internal ones) will be inevitable⁴⁰. Even a relatively fast recovery from the crisis in the US will leave the country facing a huge and significantly increased public finance deficit, the overcoming of which will require an increase of the internal savings, and therefore – limitation of consumption, which will most heavily hit the Chinese economy and may contribute to the weakening of the world trade. On the other hand, the US will not resign from the use of the dollar as the world reserve currency, and therefore it will shift the effects of the overcoming its own indebtedness to others by additional creation of money. Then, inflation or stagflation will appear in large areas of the world economy. Thus, irrespectively of the fact that the American economy is facing the biggest problems at the moment, in fact it may soon turn out to be everybody else's problem, including Poland, which will probably face problems soon.

Some characteristics of the changes to be brought about may be outlined in each of the scenarios described above. These changes will probably have far-reaching consequences for the global economy and for individual nations:

- The role of the state will change towards a direct involvement in management of the economy (e.g. a *de facto* nationalisation of commercial banks, thus facilitating an assumedly temporary impact on the management of corporations which will receive huge support).

⁴⁰ Source: <http://www.theglobeandmail.com/servlet/story/RTGAM.20090223.wferguson0223/BNStory/crashandrecovery/home>, on 23.02.2009.

- Globalisation may be impeded as a result of increased protectionist and nationalist trends in the economy ('buy domestic products') and this in turn may limit development opportunities in the poorest countries.
- A hegemonic position of the United States will change towards the sharing of power and wealth with Southeast Asia – the region may prove to be highly vulnerable to the disturbances in the global economy⁴¹. A functional merger of America and China (Chimerica) may take on a new (strategic and military) dimension to help Asia increase its global role (with the US maintaining a dominant but far from hegemonic role). Any crisis (or a boom) in the nearest decades will ultimately lead to the shift of the world centre from the Atlantic to the Pacific. This process can be impeded for a longer time probably only by an uncontrolled social explosion in China (which cannot be ruled out).
- The scale and scope of social conflicts may be substantially increased, including the ones having religious and ethnic origins. Demographic processes may be an important trigger for potential difficulties (a large increase of the population in poor countries and a decline in rich ones, leading to the strengthening of social conflicts through migration).
- Some of the services in part or in full ensured by the state (education, health care services) may be in a particularly difficult situation due to an increased demand for these services, reductions in the state budgets and the dramatically decreasing scale of local and state taxes.
- The crime rate, including organised crime, will be growing in parallel with the deepening of social effects of the crisis. A separate problem will involve operations on the verge of crime of financiers, financial advisors, bankers and entrepreneurs, using access to huge funds allocated for combating the crisis (similar to a recent situation in the US where, only at the end of 2008, the financial sector disbursed to itself USD 12 billion (!) from the bank bailout fund to pay bonuses to bank and investment fund managers).
- New survival strategies will appear where a further development of the shadow economy may dominate, which may additionally increase difficulties of the public sector.
- Anti-crisis strategies will substantially differ between developed and developing countries (the Chinese solution may be an attractive model for the latter). Therefore, the role of global financial institutions (such as the World Bank and the IMF) will change, forcing them to adjust their intervention strategies applied so far. Both the political mandate, the scale of resources and the operation model probably will have to change in the activities of the IMF and the IBRD.

It may be reasonably assumed that the present crisis will trigger important changes in the operation of the capitalist system on the one hand, and in the structure of the world economy on the other. From this point of view, questions can be asked rather than answered. Will the presently heralded final defeat of liberalism really lead to the increase of state interventionism and the creation of a new type of state capitalism? Are the nationalisations taking place in the banking and financial sectors only an attempt to provide an emergency rescue for the endangered sectors or the beginning of an increased role of the state ownership and of the public sector? Or are they perhaps only a phase in these institutions' healing process, leading to their future profitable sale to private owners? Will the pressure for reforms and creation of new regulations lead to the establishment of appropriate supervision and regulations cleansing the private finance market of its operational distortions and open the door for free competi-

⁴¹ Source: as above.

tion also on the international scale? Or will it also lead to the limitation of the market forces operations for the benefit of direct regulation by the state and increase of protectionism limiting the development of the global economy? Will the present crisis accelerate the changes in the structure of international institutions established after World War II, or will a further decline of their prestige and capabilities related to monitoring and regulating the global economy occur? Will the present crisis accelerate the process of changes in the structure of power in the world economy, increasing the role of the new centres emerging out of the group of fast-developing countries especially in Southeast Asia? Finally, will the present interventionist measures prove to be effective, and the crisis will be overcome relatively quickly or is it the beginning of a longer downturn lasting several years?

These and probably many similar questions cannot be clearly answered for the time being. The assumption adopted in the Report about the need for a constant monitoring of the crisis, its development and its effects seems to be the only reasonable solution.

At the same time, it should be noted that the present crisis has obstructed or totally reversed other phenomena hotly debated still in mid-2008: food crisis, raw commodity crisis, energy crisis, political crisis (inadequacy of political institutions, national and international ones, to the actual status of social and economic relationships development, both inside national states and on a global scale), and finally the ecological crisis. It is known that a potential recovery from the financial crisis indicates a return to at least some of those challenges. Therefore, the problem of this crisis is not only a revival of economic growth, but also a redirection of the global economy to comply with a new, not yet fully known, development paradigm.

1.6. POLAND – AN IMPORTER OF THE CRISIS? POSSIBLE SCENARIOS

Starting from 1990, the Polish economy was developing in tune with its traditional business cycle (some economists justifiably claimed that development in the real socialism economy was also cyclical, but we shall not discuss this question in the Report). There is no doubt that the slowdown observable in the years 1999-2002 was partly cycle-related in nature. It was also clear that the turn of this decade would be a period of economic slump. Even without the current global crisis, the Polish economy would now be decelerating its growth. However, since a severe global crisis is a reality, we are likely to experience it not as a stagnation but as a recession. This is accompanied by other adverse factors such as a deteriorating trade balance, increased deficit in the current account, rapid borrowing abroad by enterprises and households, excessive public spending and the ensuing increase of public debt, increased costs of labour, higher cost of credit, increasing costs of energy and energy carriers. To some extent, these were the consequences of errors made in the economic policies in 2006-2007, which in particular included the forgoing of efforts aimed to prepare Poland's entry into the Eurozone, abandoning of the programme to improve the public finances, as well as a number of erroneous decisions relating to the restructuring and privatisation in various sectors (e.g. discontinuing the privatisation process in the ship-building and mining industries), lack of efficient management of state-owned assets and of responsible state supervision in the public sector, coupled with poor management of public debt.

Opinions about the reaction of the Polish economy to the global downturn are getting more and more pessimistic, with growth predictions for 2009 capped at 1 per cent. This is a much more favourable forecast than in the case of other European countries which in their majority can expect a contraction reaching several per cent of the GDP.

Although what the future holds cannot be predicted for certain, some hypothetical scenarios can be outlined. It can be reasonably expected that the Polish economy will follow the main trends observable in the global economy. However, this does not mean that the slump in Poland will be deeper or longer than in the more developed countries; on the contrary, it could be smaller, and this opinion is based on the following assumptions:

- A significant slump in the value of the zloty boosts Poland's competitiveness in foreign markets and in such sectors as tourism or border trade (with Germany, Slovakia, Lithuania), although these benefits are offset by the negative impacts of foreign currency loans and currency options. However, this increased competitiveness less applies to exports of transnational corporations (e.g. the volume of car production depends on demand and not on the offered prices). Some claim that the depreciation of the zloty also has its downside, e.g. the increased debt to income ratio, and increased costs of foreign and domestic debt denominated in foreign currencies.
- A reduced demand for brand and quality goods may boost demand for cheaper products manufactured in Poland.
- A better standing of the Polish banking system so far (which however does not preclude future problems in this sector) and an overall good economic situation may stimulate demand for fixed-term deposits. This – while increasing the value of the zloty – may not have an adverse impact on the dynamics of the Polish economy despite its lessened price competitiveness, which will have already entered into a period of growth, similarly to other economies.

One more external factor should also be taken into account, viz. the influx of EU funds for the financing of infrastructure investments and other regional projects. The projects due to be completed in connection with the organisation of the Euro 2012 will certainly also have an impact. Until recently, there were some concerns that foreign construction companies would have to be involved in the execution of these investment projects. Currently, however, in view of the expected contraction in residential housing and lesser demand for construction services abroad, this may prove to be a reserve sustaining economic performance in the construction sector, and thereby in other sectors. It is a kind of a 'buffer' shielding the economy against the crisis. Nevertheless, one should bear in mind that there exists a risk that the already practised doctrine of prompt spending of EU funds will be petrified - instead of an approach to regard the usefulness of a given project as an overriding priority.

Notwithstanding the above, perhaps a different and not too optimistic scenario should also be considered, informed by a larger base for comparisons and lessons learnt from the past crises. The alternate scenario is underpinned by two assumptions. Firstly, that Poland as a peripheral country of minor importance in the world economy has practically no influence on controlling the processes caused by the crisis. Secondly, it can be surmised that – similarly to other peripheral countries put to the crisis pressure over the past sixty years – a fully-fledged recession will hit Poland with delay (of even as much as one year). Its scale however will most likely be the same if not worse than in better developed countries as the financial and institutional capacity of the state is far weaker in Poland than in developed countries. Should this be the case, our analysis at the end of the day will be but a gloss (and a quite useful methodological exercise) to the preliminary stage of the Polish crisis. With this in mind, let us treat this Report as a part of the monitoring process which should be continued.

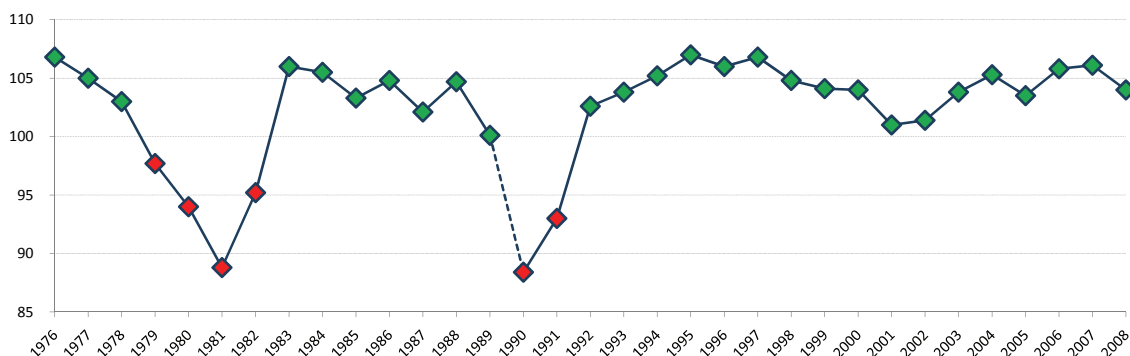
The situation of Poland is analysed in greater detail in the subsequent parts of the Report.

2. PREVIOUS DOWNTURNS AND SLOWDOWNS IN THE POLISH ECONOMY

2.1. CYCLIC DEVELOPMENT

The two downturns in the Polish economy referred to above occurred about thirty and twenty years ago (cf. Fig. 1), and were not the first periods of recession (slowdown) after World War II. The economy of the People's Republic of Poland (or the PRL) also developed according to a cyclical pattern. Starting from the 1950s, every decade consisted of two parts: the first part with an ambitious investment programme, and the second half characterised by efforts to regain a state of equilibrium. This was particularly well visible in the 1950s and 1970s. In the former case, following a period of a massive investment effort largely targeting the armaments sector, the years 1956 and 1957 were devoted to the reversing of the dogmatic proportions of real socialism, with the production of means of consumption increasing at a faster pace than that of means of production, and real earnings firmly on the rise. In the 1970s, an excessive investment effort of Edward Gierek's plans necessitated the so-called Economic Manoeuvre, which was aimed to decrease investment levels and restore market equilibrium. However, as the economy was depleted of reserves (which had existed at an earlier period characterised by lesser political pressure), this exercise did not bring the desired effects and led to a heavy economic slump two years later.

Fig. 1. National Income dynamics (1976-1989) and GDP dynamics (1990-2008), Previous year = 100



Source: prepared by EUROREG, based on the data from GUS (Polish Central Statistical Office)

The transformation-related recession with a similar degree of severity as the economic downturn during the Edward Gierek period was not a result of the business cycle but rather a manifestation of the demise of the socialist economy and the shock therapy ordained in the Balcerowicz programme. When we compare Poland with other post-socialist countries, this therapy proved to be a remarkably successful way of transition to a new economic model.

The slowdown at the 'turn of the millennium' was apparently a natural phase in the business cycle, exacerbated by several external and internal factors, including errors in economic policies.

Let us look closer at more specific crisis cases in order to be able to make more informed forecasts about the near future.

2.2. THE 'GIEREK' SLUMP

The downturn at the end of the 1970s and the beginning of the 1980s with a nearly 20 per cent fall in the national product was caused by several factors, mainly of internal origin. This was primarily due to the unwarranted 'mission of the authorities to develop the country' in the first half of the decade, the resultant debt spiral with chances to repay it close to zero, and to the leading of the economy into a state of acute shortages of both consumer and investment goods. Nevertheless, there also existed external factors to this situation. In the 1970s, the world economy was undergoing a period of prolonged recession caused by the transition from 'resource-intensive' to 'knowledge-intensive' economy and – according to Schumpeterian concept of creative destruction – was paying a price for an overhaul of socio-economic and technological structures. The recession, exacerbated by the 1979 oil shock, very badly affected the Polish economy which to some extent had 'imported' the global slowdown. It has to be noted that all the socialist countries encountered similar difficulties at the time (according to János Kornai, they all had near-zero growth rates in the 1980s). However, the real problem was not the recession itself but rather the way it was dealt with. Unlike Western countries which developed new structures as a result of the recession, Poland adopted a passive 'drift strategy' which set out to overcome the recession by the re-establishment of structures existing before the crisis. Therefore, we could venture a thesis that Poland went through a deep slump 'for peanuts', and increased the gap dividing it from better developed countries not only in terms of the level of economic growth but also of its structure.

The studying of the territorial picture of the 'Gierek' downturn was made even more difficult because we had no access to the aggregate category of GNP by regions (the first such estimations for 49 voivodships were not made until 1986), and therefore were forced to analyse the statistics available for individual sectors of the economy. Although the emerging picture was not entirely equivocal, certain trends could definitely be observed. The recession in industry was much heavier in the more industrialised regions, and these regions were also slower to overcome the slump (in particular the voivodships of Katowice, Kraków and Łódź). In 1983-1987, the Katowice voivodship had a dynamic of industrial output growth lower than the national average. On the other hand, the voivodships of Warsaw, Poznań and Wrocław had already had more diversified economic structures and were faster to overcome the slump. It has to be said however that the recession of 1978-1982 did not introduce any significant changes in the geography of the Polish industry. Interesting regularities could be observed in the construction sector, where the non-socialised sector delivered half of the output. This particular sector proved to be much more immune to the crisis: the slump, when it came, was both shorter and more shallow than in the socialised construction sector. No significant regional regularities could be observed in this branch of the economy, and considerable year-on-year fluctuations were most likely the effects of 'creative reporting', whereby before the end of the year the state sector would report completions for buildings whose construction in reality had not been completed (which resulted in a statistical decrease of output in the following year), whereas the private sector would extend the construction period. On the other hand, in the agriculture sector 'strong' regions, with high market-oriented production figures per one hectare of arable land (Greater Poland - Wielkopolska, and areas surrounding cities) proved to be more resistant to the crisis. The ownership structure did not play any important role in the spatial distribution of the dynamics of agricultural production.

2.3. THE TRANSFORMATION RECESSION

The transformation, or transition recession (1989 – mid-1992) was a phenomenon of a totally different nature. Before initiating the process of systemic reform, Poland's economy was in a state of collapse; it had not rebuilt its potential from a decade earlier, while the market disequilibrium reached a depth never fathomed before, with inflation that soon turned into hyperinflation.

The transformation led to a complete revamping of the Polish economy, and produced new ownership structures, financing mechanisms, relations with other countries, new branches and sectors, technological standards, volume and structure of employment – that is, it involved all factors which together make up a systemic change. These phenomena have already been described in detail elsewhere and there is no need to analyse them here in depth. Instead, we would like to focus on the regional distribution of transformation processes. Generally speaking (i.e. without looking at the specific situation in individual regions), this distribution could be summarised as follows:

1. In the years of the so-called transformation shock (1989-1990), those voivodships which were relatively less developed (by comparison with the country at large) improved their standing. The economic slump, less acute than in the better developed regions, was caused by a higher share of (individual) agriculture in the economic structure as the sector in question 'absorbed' the recession in the first years of the transformation, which was mainly caused by the restructuring in industry. The agriculture sector also served as a 'waiting room' for those employees who used to work in the industrial sector in cities and were made redundant.
2. In 1991-1992, the trends visible in the first period of the transformation were strengthened even further, viz.:
 - Voivodships with a large share of individual farming had a relatively high GDP growth;
 - Voivodships with a high share of state farming (mostly north-western regions) recorded a fall in GDP, similarly to some less-developed voivodships (e.g. those with a significant role of tourism). Some of these regions were affected by mass unemployment;
 - Most of the regions with large agglomerations recorded further GDP contraction due to the slump in industry.
3. In the period of climbing out of the recession (after 1992-1993), less-developed voivodships turned out to be relatively less capable of dynamising development. The voivodships with huge agglomerations where a deeper restructuring of the traditional industries was needed had a relatively lower pace of GDP growth, while the regions with a diversified economy (large agglomerations, efficient agriculture) and those which had successfully completed a process of economic restructuring (e.g. regions with a prevalence of former state farms – PGRs) were in a much better situation.

Using the 'J curve' concept, we can say that in the two earlier recessions the poor regions followed a 'flat' J-curve, and the strong ones – a steep curve (at least in the initial phase of the contraction). In the phase of coming out of the recession, the strong regions with more diversified economic structures entered a path of fast development (a process which is currently termed as metropolisation of development). However, in either case the regions with a domination of industry (heavy industry in particular) were not able to achieve a rapid pace of growth.

Comparisons with other countries show that in other CEE countries similar processes could also be observed. On the one hand, highly industrialised regions went through a period of deep and extensive

slump, and on the other – metropolitan regions with varied socio-economic structures and a high share of fast-developing market services (largely financed from foreign funds) reached a high level of dynamics once they had dealt with the costs of the restructuring. Agricultural regions, especially those with a peripheral border location, emerged from the transformation without excessive losses, but on the other hand they have not been able to produce a strong development dynamics until today, thus increasing the gap dividing them from the most-developed regions even further.

2.4. THE SLOWDOWN AT THE BEGINNING OF THE DECADE

The slower development in the years 2001-2002 (when the pace of growth hit the bottom at about 1 per cent in 2001) was caused by a number of factors:

- The period of fast growth (up to 7 per cent per annum) was followed by a natural, recessionary phase of growth when the economy entered a period of restoring equilibrium.
- In the fast growth period, the progress of systemic reforms (of which public privatisation was particularly ineffective and slow) and rationalisation of public finances (the reduction of CIT rates alone could not have been sufficient because the aim of the exercise was to *rationalise* public spending) was slowed down as compared to the initial transformation effort.
- The so-called four major reforms were not fully finalised, and their results, marred by the incomplete character of these efforts (e.g. reform of the pension system), were delayed and proved to be not as far-reaching as expected.
- The AWS (*Akcja Wyborcza Solidarność* – Solidarity Election Action) government increased pressure on expanding the social sphere while reducing pro-development expenditure.
- The so-called 1998 Russian crisis reduced the profits from foreign trade, which particularly affected Poland's eastern regions.
- The restrictive monetary policy which – according to some economists – involved excessive interest rate increases (which, according to others, shielded the Polish economy against the monetary crisis, the effects of which could have been much more painful than the contraction of growth to 1 per cent).

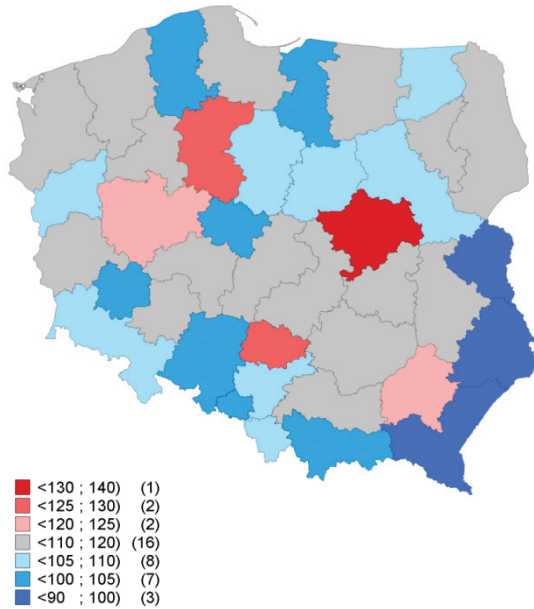
The territorial distribution of the slowdown at the end of the 1990s and the beginning of the subsequent decade is quite interesting. Although for the entire length of the two subperiods, viz. that of a reduced rate of growth (1998-2001) and that of its recovery (2001-2006) we cannot expressly point to regularities in the changes in the dynamics of GDP growth for individual types of regions (cf. Fig. 2), a more detailed analysis reveals some interesting patterns.

The dynamics of growth fell for the first time in 1999 in weak regions, mainly in eastern Poland, and in the regions of Słupsk, Toruń and Włocławek. In this period, the remaining subregions had positive rates of growth which were particularly strong in the metropolitan regions. This situation lasted until 2000 (even though the metropolitan regions slowed down), and was reversed in 2001: the poor (mainly eastern) regions accelerated whilst the metropolitan regions entered a recessionary phase (including GDP contraction in absolute numbers). In the following year (2002), GDP rates shrank in the western regions, the metropolitan regions accelerated and the eastern ones recorded dissimilar, and fluctuating, rates of growth. Generally speaking, the slowdown was first experienced by agricultural regions in the east of the country which had earlier entered a slowdown phase but came out of it later, with lower

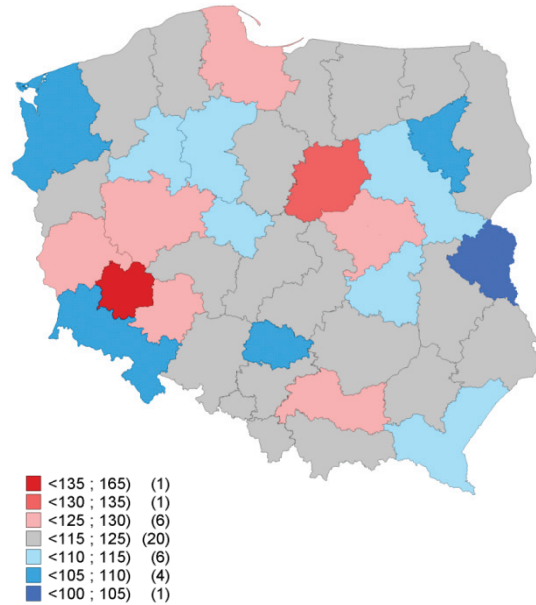
dynamics in the recovery phase than industrial regions, and especially metropolitan regions. We can say therefore that weak and strong regions were 'dislocated in phase' vis-à-vis one another, and that the overall pace of the development of the Polish economy was dictated by the metropolitan regions.

Fig. 2. Dynamics of GDP growth (constant prices)

1997-2001, 1997=100 (Poland = 115,2)



2001-2006, 2001=100 (Poland = 126,1)



Source: prepared by EUROREG, based on the data from GUS (Polish Central Statistical Office)

3. POLAND'S CURRENT SITUATION

3.1. THE VULNERABLE INDUSTRIES

Before we start an analysis of the consequences of the present crisis, an important distinction has to be made between immediate consequences and long-term ones. The media and the public opinion – and therefore the authorities – are mainly interested in the immediate effects, especially spectacular mass layoffs in big industrial plants. Workforce reduction is the primary measure of crisis for the public at large (and will remain so). However, from the perspective of the country's long-term development, the most important consequences of the present crisis are related to the competitiveness of sectors and enterprises which will operate in Poland within the coming several years or more. The scale of downsizing says nothing about the very crux of the problem, i.e. the threat of negative long-term effects: whether the redundancies signify a flexible adaptation of the workforce level to the temporarily reduced scale of operations, whether they are accompanied by a suspension of investment projects – which could jeopardise the competitiveness of enterprises internationally, or whether they are a product of a lasting collapse or termination of activity. In simplified terms, at the microeconomic level we can talk about a 'cleansing' scenario whereby weaker, less competitive businesses and sectors are eliminated from the market and others are strengthened, or about a 'destructive' scenario which would imply an erosion of the very foundations of the existing development paradigm, yet without creating new development opportunities.

Formulating an opinion on the extent and sectors which are likely to undergo the 'destructive' or the 'cleansing' scenario requires a thorough analysis and monitoring of the condition of enterprises. In this Report, we can only highlight certain features of the sectors, including their linkages with the global economy, which make one of these scenarios more probable than the other. To do this, we need to provide answers to the questions concerning the very nature of this crisis and the mechanisms through which it can affect the Polish economy. The following questions are particularly pertinent in this respect:

- How long and how deep shall be the slump in Western European countries, which is affecting the main export sectors of Poland's economy?
- Will there be a sudden contraction of domestic consumption⁴²?
- Will the credit crunch continue, thus posing a lasting barrier to investment?

In addition to the above, we cannot ignore the impacts of individualised factors which escape generalisation, such as the troubles or even bankruptcies of companies as a result of currency options. The overappreciation of the zloty in mid-2008 could play a role as it has effectively pushed some Polish manufacturers (such as for example the Krosno Glassworks) out of the global markets due to their losing the price competition with cheaper producers (mainly from China).

On top of that, the psychological aspect does also play a role as at the end of the day it can turn out to be a self-fulfilling prophecy. In December 2008, the leading indicator for industry fell by 29 percentage

⁴² Even press reports based on statistical data can be misleading. For example, in an interview with the GUS spokesman we could find a statement that the data 'published within the last two weeks' indicate that there has been a shift in consumption towards cheaper products due to the crisis. However, a telephone conversation revealed that the 'last published' surveys were from 2006 and 2007 (!).

Source: http://wyborcza.pl/1,76842,6332840,Zrezygnuje_z_oliwki__Ale_bulki_z_szynka_nie_oddam.html, 2.03.2009.

point year-on-year, the steepest fall since records began, i.e. since 1993. The fall in the construction sector was 22 percentage points (the highest fall since 2001); 11 percentage points in retail trade (the highest fall since 2002), 15 percentage points in the service sector – a record level similar to the industry sector (it has to be borne in mind however that the leading indicator for the service sector has been measured for a relatively short period, i.e. since 2003)⁴³.

Also importantly, due to the relative weakness of the Polish economy, its marginal role vis-à-vis the major global economies and a strong dependency on external processes (both in the real economy and in global financial flows), possibilities of applying any autonomous stimulating macroeconomic policies are considerably restricted.

In such a short study as this one, it is not possible to analyse all sectors of the Polish economy. By making an assumption that the global crisis is not a business-cycle related event, and that the downturn in the foreign markets will be the primary mechanism of its impact on Poland's economy, we can attempt to identify several important factors which may shape long-term consequences of the crisis in Polish industry.

When compared with other CEE economies, Poland's economy as a whole is less dependent on export than for example the Czech or Hungarian economies. Four branches of industry are entirely export-oriented, viz. the car, electrical equipment (including household appliances), electronic and furniture industries, and the value of output in the car industry is equal to that of the remaining three. There is a widespread expectation that a fall in demand will strongly affect durable consumer goods, i.e. the aforementioned sectors which have become 'household names' in Poland's exports. In 2007, these sectors employed over 610 000 people (i.e. 19.5 per cent of all workforce employed in industry). Altogether, with the textile industry which is small in terms of output value but significant in terms of employment, they employ nearly one fourth of all workforce in industry. Another 22 per cent of people employed in industry work in six other sectors, each of which exports at least a half of their production (cf. Table 1). The sectors with the largest employment which mainly sell their products in the domestic market include food industry, power industry and coal mining.

We can analyse the main factors which could combine to weaken the export branches of the Polish industry in the wake of the present crisis, using the example of the largest such sector, the automotive industry. These factors may include:

- Restricted decision-making, technological and design competencies of the Polish subsidiaries of transnational corporations may lead to diminishing their role in a situation of rising economic 'nationalism' (triggered by the trade unions and tabloid newspapers as well as rescue plans and bail-out packages proposed by individual countries), which will certainly be particularly well visible in the home countries of the parent corporations;
- Overall reduction of capital expenditure will put a halt on the process of relocating production competencies to CEE countries which took place in the last decade, and quite possibly will lead to the closure of existing plants;
- Accelerated process of looking for cheaper production locations outside Poland, which can be impeded by a reluctance to invest outside the EU, which is fraught with more risk – although the depreciation of the zloty can act as a strong deterrent in this respect;
- Protectionism and political decisions encouraging companies to locate their production in their home country (*vide* the stance of President Sarkozy) despite objections from the European Commission.

⁴³K. Rybiński, http://forsal.pl/wiadomosci/103472_recesja_puka_do_drzwi_ale_kiedy_sie_skonczy.html, 5.01.2009.

Tab. 1. Export orientation and dominant ownership in major industry branches by sections of the Polish Classification of Activities (PKD).

Share of exports in production sold	P C A	Economy sectors (including groups with the highest share of exports)	Value of production sold in 2007 (in bn PLN)	Employment in 2007 (in thousand)	Dominant ownership
75 per cent or more	29	manufacture of motor vehicles	80,1	164,5	foreign
	27	manufacture of electric appliances	35,2	150,1	Polish and foreign
	26	manufacture of computers, electronic and optical equipment	24,2	101,5	foreign
	31	manufacture of furniture	20,5	195,8	Polish and foreign
50 – 74 per cent	24	production of metals	51,9	72,1	Polish and foreign
	20	manufacture of chemicals and chemical products	40,5	89,2	Polish and foreign
	22	manufacture of rubber and plastic products <i>incl. manufacture of rubber products over 75 per cent</i>	34,6	172,0	Polish and and foreign
	28	manufacture of machinery and equipment	26,4	156,6	Polish and foreign
	17	manufacture of paper and paper products	18,4	45,6	foreign
	16	manufacture of wood products excluding furniture	18,2	150,8	Polish and foreign
25 – 49 per cent	25	manufacture of metal products ready for use excluding machinery and equipment	37,4	292,7	Polish and foreign
	23	manufacture of other non-metallic mineral products <i>including manufacture of glass and glass products over 50 per cent</i>	34,8	152,2	Polish and foreign
under 25 per cent	10	manufacture of foodstuffs	112,0	425,7	Polish and foreign
	19	Manufacture and processing of coke and refined petroleum products <i>including manufacture of coke over 50 per cent</i>	57,8	15,2	Polish
	35	generation and supply of energy	31,4	156,3	Polish
	11	manufacture of beverages	25,7	40,5	foreign
	05	hard coal and brown coal mining	19,6	138,9	Polish
	12	manufacture of tobacco products	15,9	7,3	foreign

NB: The Table includes branches with value of production sold in excess of PLN 10 billion.

Source: prepared by the authors.

The consequences of the crisis may be more acute for Polish companies which are as a rule secondary or tertiary suppliers; some of them may not survive a sustained period of lower orders, which could in effect lead to increasing the domination of foreign corporations.

At the same time, there are factors which could help strengthen Poland's position in the European division of labour in the automotive industry and some other export sectors over a longer time span, viz.:

- The plants in Poland are among plants with best productivity to labour cost ratios and with the highest product quality, which can improve their chances to maintain, or even increase their role within the structures of their parent corporations in the restructuring efforts undertaken during the crisis;
- A considerable share of production in Poland takes place in newly-built, large factories which in many cases are better organised and furnished than similar, depreciated plants in Western Europe;
- Increased demand for macroeconomic and political stability may reduce the competition from cheaper countries outside the EU structures such as Ukraine or Turkey;
- Increased pressure on cost reductions;

- Greater demand for lower-price goods;
- The deteriorating situation in the domestic labour market should boost employees' motivation, and thereby help maintain high quality and discipline of work (lack of absenteeism); at the same time, it should reduce pressure on salary increases – a process which can already be observed.

If we assume that the current crisis will be a period of a deep restructuring of individual companies and entire sectors, we can surmise that in the case of Poland it will result in an accelerated decline in the production of relatively simple, labour-intensive products based on low labour costs and limited staff competencies. In the car industry, this may bode ill for e.g. manufacturers of wiring looms and car upholstery as the reduced demand may offset potential gains from the depreciated zloty. A larger share of production based on simple assembling in the sectors manufacturing consumer electronics and household appliances poses a greater threat of reducing the scale of operations than in the automotive industry. The situation of the furniture industry is made additionally difficult by the monopoly of the timber supplier - PGL Lasy Państwowe. Keeping up the demand for switchgears and cables, non-metallic mineral resources (building materials) and to some extent metals will largely depend on the scale of investments in the domestic market, including publicly-funded infrastructure investments. In the case of chemicals and chemical products, plastic and rubber products, an increased demand abroad for lower-price goods, coupled with a weak zloty, may help maintain or even strengthen the position of some Polish manufacturers. There is little ground to believe, however, that these factors can stop the already advanced process of the contraction of the Polish textile industry, which is the most vulnerable sector to the competition of cheap manufacturers from other countries. Another threat, particularly acute in relation to the development of production of basic chemicals, metals or glass is a significant increase in energy prices.

Generally speaking, it can be expected that opposing processes can simultaneously take place in any sector, as is evidenced for example by the recent decision of Dell, the US computer manufacturer, to relocate its computer factory from Ireland to Łódź while reducing output in some other of electronic factories operating in Poland. We should not forget that the service sector accounts for a large part of the Polish economy and therefore is much less exposed to the crisis provided there is no collapse in domestic demand or a drastic reduction of banks' lending activity. This is also true for export-oriented services, such as shared services and outsourcing centres as well as IT services, which should continue to grow. Any strong weakening of the zloty may reduce foreign travels of Poles, and thereby increase the revenues of sectors servicing domestic tourism.

3.2. SYMPTOMS OF THE CRISIS – PRESS COVERAGE

'Crisis' has become an everyday word in the media. In their ever-lasting pursuit for sensation, the media confuse facts for more or less sensible forecasts and projections. Press reports in the period up to the end of February 2009 offer the following picture of the current state of affairs.

Poland has links with many foreign markets, especially in those sectors of the economy which are strongly export-oriented and the domestic market, even during a downturn, is not capable of absorbing their surplus production. The GUS data indicate that production fell considerably in the metallurgical, chemical, power, machine-building and plastics industries. Analysts claim that the particularly vulnerable sectors include the car industry, residential and industrial construction, production of household appliances, radio and TV equipment and furniture-making. On the other hand, in 2008 only 411 enter-

prises went bankrupt in Poland, which is the lowest number since 1989. Nevertheless, reduced exports may be followed by reduced investments, downsizing and ultimately a significant decrease of consumer spending by households.

We can consider November 2008 to be the first month of economic slowdown in Poland, with a 10 per cent fall in industrial output. The metal production sector was most affected, with a 34.7 per cent year-on-year decline. Output in the automotive industry fell by 17.8 per cent, with exports lower by 11.9 per cent and imports – by 8.2 per cent. According to business analysts, reduced export is the immediate effect of a growing recession and lesser demand in the major markets, especially in the EU (Germany, Italy), a trend which is expected to continue at least until mid-2009.

In late 2008, unemployment started to rise in Poland: in November 2008, the unemployment rate reached 9.1 per cent (as compared to 8.8 per cent in October). There are two apparent macroeconomic reasons for this: cutting production by exporters and manufacturers of consumer goods bought on credit, and reduced demand for investment goods due to a limited lending activity of banks. The number of job vacancies is falling, too: in November 2008 it was the lowest since 2004 (60 500). The most recent statistics indicate that in November 2008 about 160 000 people were laid off, which is the highest number of redundancies in a decade. The detailed statistics on mass layoffs are provided in the map below:

Fig. 3. Mass lay-offs announced for 2008



Source: http://www.rp.pl/artykul/175207,251416_Rekord_zwolnien_grupowych_.html, dated 21.01.2009.

Banking and financial sector: the Polish banking system suffered minor losses due to its conservative policies (termed 'backwarded' by some) despite its significant connections (mainly related to ownership issues) with the global financial market. Nevertheless, banks lost confidence and stopped lending money to one another (even though they still have enough cash, with the solvency ratio at 12 per cent as compared to the mandatory 8 per cent) in a situation of increased risk (in November 2008 the three-month WIBOR reached a record 6.8 per cent). In effect, banks began to increase loan interest rates (in some cases by as much as 2 per cent), offer mortgages for 75 per cent of the real estate value (instead of 110 per cent as before) and widen spreads in foreign currency loans. Loan applications now have a much higher turn-down rate: six-seven applications in eight are rejected. There are fewer and fewer foreign currency loans (especially those denominated in Swiss francs), which means lower revenues for banks (no gains on F/X rates). There are no clear forecasts concerning the number of new loans in 2009; some experts expect a considerable decrease and some predict a one-digit increase. At the same time, in order to attract new clients banks raise interest rates for deposits, which in some banks reach as much as 8 per cent for short-term deposits. This is coupled with cancellations of the already signed or nearly finalised loan agreements (negotiations with clients have also been terminated in some cases), which has negatively influenced the real estate market. The main problems and challenges facing the banking sector include: maintaining liquidity in the sector, preventing panic and collapse of confidence, improving the financial situation and raising new capital. In the fourth quarter of 2008, the interbank market in Poland practically ground to a halt, and most of its functions had to be taken over by the National Bank of Poland (NBP).

In the recent period, stock exchange indexes were falling. This may be due to several key factors such as: dependency on developments at major foreign stock exchanges, withdrawal of individual investors but not of financial sharks, and the spreading panic manifested by a massive selling of stock. The bear market also caused a significant fall in the value of pension fund assets.

The insurance market is indirectly suffering from a collapse in the mortgage market, and the number of home insurance policies is constantly falling. The life insurance sector is undergoing a deep slump, and insurance/savings products have become unprofitable.

Construction and real estate: difficulties in the financial market have immediately been reflected in the construction sector and real estate market. Restrictions in access to loans had a twofold effect: firstly, it is now more difficult to secure funding for building projects (it is also difficult to negotiate road construction projects and public contracts owing to the credit crunch), and, secondly, the demand has fallen in the primary and secondary real estate market. As a result, many residential developments in large cities such as Poznań, Łódź, Warsaw, Kraków have either been suspended or postponed (for example the company J.W. Construction has temporarily suspended the construction of 1 500 apartments); also, various incentives and discounts are used to encourage people to buy. Likewise, office developments are endangered: usually, at least 50 per cent of space must have lease guarantees before a decision to start the construction can be made. Until December 2008, the number of planning permissions fell by 6 per cent. In investment projects already under way, the quality standard of apartments have been lowered (e.g. the Miasteczko Wilanów development in Warsaw). The emphasis is now mainly on sale, and not on construction. Developers offer generous discounts and are considering leasing apartments instead of selling them.

The financing of construction projects is also problematic. Developers point out that until recently they were building for the deposits paid by future apartment owners, and now they have to contract loans

themselves, which increases project costs. According to press reports, one in four construction companies are suffering losses, and the number of such enterprises is two times higher than a year ago.

Particularly difficult is the situation of those would-be buyers who signed preliminary agreements for apartment purchase after obtaining a mortgage guarantee from the bank, which however ultimately was not finalised, and they lost the money paid as deposit towards the price of the apartment.

Real estate prices have also gone down, with the average price in Warsaw falling from PLN 9 400 to PLN 8 900 per m². It is generally estimated that prices have already fallen by some 20 per cent, but analysts are expecting more reductions, by as much as even 10 per cent. Interest in cheaper (and lower standard) apartments is increasing. Nevertheless, the number of apartments sold is steadily falling (by 20 per cent as compared to last year), and the number of unsold apartments in newly built buildings is increasing.

Local governments and state-owned enterprises (such as the Polish Railways – PKP) are also having problems with the sale of their property. Until now, proceeds from such activity accounted for a sizeable portion of the budget, especially in large cities. At present, however, interest in plots (even those superbly located) has declined considerably.

Automotive industry: in November 2008, car production was already 17 per cent lower than in October, and down 27 per cent year-on-year. Although in 2008 Poland was one of the few European countries with an increase in sales (by 9.3 per cent, yet sales dropped at the end of the year despite various discounts offered in this period), but this was not enough to compensate for losses from export.

Reduced production, work in two shifts only or compulsory leaves are measures which were taken by car assembly and production plants (Fiat Tychy, Fiat-GM Bielsko-Biała, Opel Gliwice, VW Poznań – where contracts with 800 staff hired by a temp agency were not extended). Plants manufacturing spare parts and subassemblies are also feeling the crunch. Michelin Olsztyn resorted to work stoppages instead of layoffs, the Rolling Bearings Factory in Kraśnik is laying off staff, and the Treasury Minister has suspended the process of its privatisation; the TRW Częstochowa group is threatened even though its operations from Austria have been relocated here. Companies are taking various measures to cut costs; for instance, Fiat proposes staff relocations but without ensuring continuity of employment (no bonuses) to its staff instead of redundancies. The construction of a Peugeot plant near Warsaw is not decided yet. Remy Automotive is closing down its plant in Świdnica, which means that 230 staff will lose their jobs in the near future (and ultimately the entire staff of 360 will be laid off). MAN in Niepołomice has already made redundant 150 staff.

Electronics and telecommunications: the press reported a heavy drop in the sales of notebooks in the Christmas period, i.e. at a time when usually sales are high. According to the papers, the global downturn has affected companies in the Pomeranian Special Economic Zone in Łysomice-Ostaszewo. For instance, Sharp suspended production at the end of December and the beginning of January. Tele-Fonika Kable announced the planned downsizing involving 900 staff due to lack of orders from abroad. Whirlpool is planning to lay off 500 staff at its factory in Wrocław, and Amica Wronki intended to shed about 200 jobs by the end of February (as we can see, these were only declared redundancies). The management of the TV sets manufacturer Thomson Displays Polska in Piaseczno proposed to lay off approximately 1 000 staff, with severance pays for up to nine monthly salaries but not more than PLN 45 000, and to reduce the salaries of the best-paid personnel by 20 per cent (this group makes up half of the plant's personnel). These measures however are not directly related to the crisis but arise from the falling competitiveness of the plant in international markets.

In anticipation of a negative scenario, Telekomunikacja Polska S.A. has cut its R&D budget; it is also planning mass lay-offs involving 2 300 staff. It is estimated that in 2009 the telecom market in Poland will contract by PLN 1.4 billion, but there is no information available as yet about the actual redundancies or reductions.

Transport: the crisis means lesser flows of people and goods, which is bound to affect transport companies, including railways. Freight traffic fell by 4 per cent in 2008, and the forecasts for 2009 are at a similar level. PKP Cargo is planning to reduce the number of its plants (from 42 to 16), with possible lay-off levels of 5 000 staff, while PCC Rail intends to shed 200 of 450 jobs. CTL Logistics is another company that is considering staff redundancies. At the same time, companies expect to cut their rolling stock investments by half. As yet, there is no information available about the actual staff reductions.

Aviation industry is also suffering losses. Regional airports recorded lesser passenger traffic levels, with Gdańsk taking a 5 per cent loss, and Kraków and Katowice – 8 per cent each. In addition to that, low-cost airlines will probably terminate some connections: Centralwings no longer operates flights to Balice, and Ryanair has closed about a dozen connections. The low-cost operators will also have a much smaller offer of cheap tickets. The Polish airline LOT suffered PLN 200 million losses, which forced it to make severe cost cuts (82 million). The slump in the air traffic market is caused by a falling number of passengers (and lesser interest in working abroad in the case of low-cost airlines), which is only partly offset by the falling fuel prices as a great deal depends on the terms and conditions of long-term fuel supply contracts.

On the other hand, the management of the Podkarpackie Science-Technology Park claim that only eight investment projects in the aviation sector (with the total value of PLN 61 million, 486 jobs) are not threatened, which is partly due to orders from the army.

Other sensitive sectors: the metallurgical sector reduced production: an ArcelorMittal Poland furnace in Dąbrowa Górnicza was shut down in October, and redundancies involving 980 staff are planned in the Group's plants across the country. The steelworks in Stalowa Wola is also having problems (with salaries down by 20 per cent, plant closure for two weeks and a very likely introduction of a four-day working week). The KGHM combine is also in a difficult situation mainly due to falling copper and silver prices in international markets. Grupa Kęty S.A. is also looking for ways to cut costs and plans to reduce its workforce by up to 10 per cent. According to the data of the Voivodship Labour Office in Kraków, the powiat (district) of Chrzanów is likely to suffer the highest number of redundancies in the region owing to the closure of the Trzebieńka Mining Plant and the loss of nearly 500 jobs. The Krosno Glassworks plans to lay off 800 staff in its plants; the glassworks in Tarnów is also planning redundancies.

The crisis has not spared the furniture industry, even though as for now reduction of production and redundancies are only in a planning phase.

The press also reports that the contraction in the construction sector is leading to a reduction of production in cement mills and plants manufacturing structural clay products; the demand for finishing services is also falling, so as the demand for energy in the industrial sector.

The crisis has also affected the textile industry. Although the downturn so far has not been very deep, companies are already planning lay-offs, especially in export-oriented enterprises. Some companies like Próchnik are relocating the whole or part of their production abroad (in this case, China). Monnari has cut the number of new store openings by 80 per cent and is planning to close down stores which do not generate profits.

Supermarkets have lesser sales growth levels, which very likely will result in price reductions. Thematic fairs attract less and less interest, e.g. the Kielce Fair is much less popular in 2009 than in the previous years. Retail sale statistics can serve as an interesting indicator of potential changes in consumption.

In tourism, there is a growing interest in cheaper travel offers; due to the falling zloty costs of trips abroad are going up, and therefore it is expected that interest in domestic tourism will increase. Notwithstanding the above, highest-end excursions (in excess of PLN 30 000 per person) remain unwaveringly popular.

Non-sensitive sectors: as yet, the crisis does not seem to affect the food sector. For instance, the confectionery industry had a record 15 per cent growth. Companies such as Wawel continue to improve in value. The food industry is doing well, with exports increase of EUR 350 million in 2008. Polish products are in a favourable situation because they are cheaper (albeit less known) in the Western markets and guarantee a similar quality. On the other hand, the Spanish frozen foods manufacturer Maheso withdrew from its planned investment in Sieradz. The eastern markets have little interest in Polish foods, which is due to internal problems in these countries. On the other hand, cheaper eateries and catering facilities (like fast food outlets), are gaining more clientele.

Likewise, there are no signs of crisis in the advertising sector. Admittedly, TV spots have lost in significance (and therefore TV stations are raising prices) so as press adverts, but Internet advertising is developing rapidly. Representatives of large companies explain that they cannot make any serious cuts in their advertising and promotion budgets despite the crisis because this could lead to heavy losses in their market shares once the current downturn is over.

Press reports also note the increasing role of IT outsourcing in the process of cutting costs in a time of crisis. Internet sales are also increasing, which sometimes means losses for the traditional retail formats. This is due to lower business costs and therefore to lower prices offered. In this process, big Internet portals will most likely emerge as winners as they are less forced to cut costs.

Outlets and discount shops offering cheaper merchandise are increasing their sales. More than half of Polish companies will be seeking to employ specialised staff in the first quarter. The labour market crisis should not affect the retail sector: some 75 000 sales experts are needed.

In the financial sector, the revenues of debt recovery companies are constantly growing. Factoring companies are also expecting higher revenues, which could be due to the growing prices of their services.

Public sentiment in this period is also interesting. According to the most recent poll by CBOS (Public Opinion Research Centre) from 30 March 2009, the 'negative consequences of the global economic crisis are not directly translated into the financial situation of Polish households, but the currently prevailing public sentiment cannot be described as optimistic⁴⁴'. What is more, despite the deteriorating opinions about the state of the economy at the end of 2008, the assessment of the respondents' financial situation improved, and this has not changed in 2009. In March, the percentage of people who felt threatened by the crisis fell by 3 percentage points (to 48 per cent) and the share of those who were actually affected by the crisis fell by four percentage points (to 44 per cent).

⁴⁴ Source: <http://www.cbos.pl/PL/News/newsletter.php>, 31.03.2009.

4. THE GEOGRAPHY OF THE 'CRISIS' IN POLAND

4.1. THE REGIONAL PICTURE

Two perspectives can be adopted for analysing the regional impact of the crisis. The first raises the question: in what voivodships the sectors threatened by the crisis play the most important role? The second approach focuses on the question: what is the threat of undermining the factors which underpin economic growth in individual regions? The latter requires an extensive, in-depth analysis which goes far beyond the scope of this study. While the Report is, out of necessity, informed by the former approach, it relates to the body of knowledge on the growth factors in individual regions wherever possible.

First of all, we should look at the potential consequences of the crisis for the best-developed metropolitan areas, which in the period after 1989 were the real drivers of Poland's economic development. Owing to the size of the economic potential and structural diversity (including their strongly diversified service sector for corporations and individuals), the metropolitan regions should prove to be most immune to the downturn in specific sectors. However, the scale of structural threats related to the dependence on the sectors which are most susceptible to the crisis will vary between from region to region.

The Warsaw metropolitan area is a region with a relatively minor share of industrial sectors which could be affected by the crisis. The car industry, thriving in the past, suffered a considerable contraction in the previous years following the bankruptcy of Daewoo. Although the role of the capital city region is considerable in the manufacture of electronics, the negative effects of the crisis may at worst be local in scale, e.g. in Piaseczno, Pruszków or Żyrardów, and in Grójec (car-related production).

The manufacture of household appliances and electronics is far more important for the economy in the Łódź region. In addition to that, the region is a traditional textile production centre, and therefore its exposure to the crisis could at the end of the day be greater than it is now expected.

Among the metropolitan areas of western and northern Poland, the share of the main export sectors threatened by the crisis is not very high in the Gdańsk and Poznań regions, but much higher in the Wrocław region. In Tricity and its metropolitan zone, this mainly involves the electronics industry (Tczew). To a lesser extent, it also applies to the car industry, which has a particularly strong presence in Poznań and the neighbouring cities, with a Volkswagen assembly plant and its suppliers, as well as bus manufacturing companies. The Wrocław region is an important centre of electronics, household appliances and automotive production.

The Upper Silesian region along with the Bielsko-Biała region in the south and the Częstochowa region in the north is the largest centre of the automotive industry and also the steel industry. Apart from some small centres such as Siewierz or Myszków, there are very few electronics and household appliances manufacturers in the region. These sectors are also present (albeit on a smaller scale) in the neighbouring metropolitan area of Kraków.

Among the better developed non-metropolitan regions, the most severe structural problems are anticipated mainly in the south and west of the Greater Poland (Wielkopolska) region along with the Lubuskie voivodship and Lower Silesia. The former, with such cities as Gorzów Wlkp., Świebodzin, Nowa Sól, Grodzisk Wlkp., Leszno, Rawicz and Ostrzeszów, concentrates plants specialised in the production of labour-intensive car parts, such as wiring looms, seats and pressed parts, which are under the greatest threat of relocation to lower-cost countries. On the other hand, cities in the Sudety and near-Sudety

region (particularly Wałbrzych) provide locations for many new investment projects in the car parts and household appliances (Żarów) sectors.

In the north of the country, the collapse of the furniture industry could pose the most serious threat. In addition to that, some of the region's cities are strongly dependent on large electronics and electric industry plants (e.g. Kwidzyna and Piła, the former being also a city dependent on a huge pulp and paper factory). In the non-metropolitan areas in Central Poland, Mława is a city with similar characteristics. The role of export sectors threatened by the crisis in eastern Poland is, by and large, not very significant save for individual cities such as Biłgoraj (an important furniture-making centre), Kraśnik (bearings), and to some extent Lublin (car parts) and Białystok (household appliances). In the Podkarpackie region, there are many medium-sized industrial plants which are more or less dependent on the production of car parts, furniture or glass, e.g. Dębica, Krosno, Mielec, alongside single-plant cities such as Gorzyce near Stalowa Wola. In general terms, it can be said that small single-industry, and particularly single-plant cities are the most vulnerable to the negative consequences of the crisis, be it immediate effects such as employment reduction or long-term ones in the form of contracting or terminating operations of Poland's non-metropolitan areas.

To sum up, looking from a structural perspective, the Warsaw metropolitan area and the relatively poorly developed regions of eastern Poland should potentially be the least heavily affected by the crisis. On the other hand, the most threatened areas include the two old industrial regions – Łódź and Upper Silesia – as their restructuring since the 1990s has largely been based on the development of durable consumer goods manufacturing such as cars and car parts, household appliances and electronics. In these regions, a large number of the workforce are still employed in the traditional sectors such as clothing or steel industries, which are most vulnerable to the downturn. Some serious problems are also anticipated in the Upper Silesia region which in the last decade was the major location area for new plants in the aforementioned sectors, mainly in the Sudety district and in the Wrocław metropolitan area. Among the less developed non-metropolitan regions, northern Poland with its major furniture-making centres and large plants in export sectors located in small cities can be particularly strongly hit by the crisis, as well as some cities of south-eastern Poland.

4.2. THE LOCAL DIMENSION OF THE CRISIS

The information provided below is based on the telephone interviews conducted with respondents from 53 cities and towns across the country. The locations were selected on purpose: in 2007, they were surveyed in connection with a study on development strategies in 'local Poland'⁴⁵. While in the former period, undoubtedly characterised by development progress which could be observed – albeit with a varying intensity – in all the surveyed locations, we concentrated on growth strategies, on this occasion we wanted to find out how the threat of the crisis was perceived today, how it was manifested and what measures were taken or planned to address it. Similarly to the previous survey, we contacted representatives of the local authorities, business circles, labour offices, development organisations and entrepreneurs. We were not able to reach all the respondents that we had intended in a given location, but nevertheless the experiences from the previous survey and comparisons with other information

⁴⁵ The publication *Polska lokalna 2007* issued in 2008 by Wydawnictwo Naukowe Scholar, Warsaw.

sources (including local press coverage) indicate that the findings obtained provide a reliable and accurate picture of the situation for the last week of January 2009.

For the purpose of further analysis, we adopted a tentative division of the surveyed locations into the following:

- large and medium-sized cities;
- industrial centres, and
- rural gminas (municipalities), urban-rural gminas and small towns.

4.3. PERCEPTION OF THE SITUATION IN THE COUNTRY AT LARGE AND IN THE SURVEYED CITIES

When evaluating Poland's situation, the respondents were clearly inclined to look at it by confronting information disseminated by the mass-media with the reality as they saw it in their own region or locality. In their majority, they agreed that they did not see any crisis-related events as they were informed about by the mass-media. Some of the respondents, particularly from locations unaffected by any economic difficulties even claimed that the current crisis in Poland was mainly a mass-media phenomenon. Such an opinion was voiced in more places than Żary, Terespol or Czuluchów, that decelerating investments and freezing new employment by private companies was prompted by the activity of the mass-media.

According to most respondents, there is no such thing as a crisis in the surveyed locations. Especially from the perspective of smaller localities, the crisis is so far mainly regarded as a media hype. Only five cities and towns of a group of twenty four reported the presence of symptoms of the crisis, such as an anticipated reduction of orders, likely redundancies, etc. In the groups of large and medium-sized cities and industrial centres, six of fifteen and seven of sixteen, respectively, could perceive some signs of the crisis. Generally, however – similarly to small gminas (municipalities) – the crisis is prognosticated rather than actually present in these locations. Many respondents expressly pointed out that it was extremely difficult to assess whether these were usual seasonal changes (e.g. in the labour market) or rather important symptoms of a deteriorating economic trend and indications of a crisis situation⁴⁶. One of such symptoms was for example suspending new employment (Kalisz). New and continued investment projects (e.g. in Przemyśl, Legnica, Pionki, Lublin, Słupsk) as well as a tangible shortage of workforce can be noticed (e.g. in Zamość, Legnica). Although a Groclin plant was closed down in Nowa Sól (losing 150 jobs), this was a result of company strategy rather than the crisis.

The first symptoms of the downturn can be seen in Kalisz, Przemyśl, Lublin, Koszalin, Ozorków, Piła, Jarosław, Mielec, Starachowice and Żary. However, only in three cities the signs of the crisis are clear and present. The first such city is Jastrzębie Zdrój where coking coal is mined. As it cannot be used by individual consumers and the demand from industrial clients is dwindling, the local economy is facing serious problems. There have been no redundancies so far, but they are inevitable in view of a serious fall in the demand for coke. The second such city is Kraśnik, where the largest plant has already laid off some of its staff and introduced work stoppages, and the falling demand for automotive products means that this situation will deteriorate even further. The third city is Krosno, with its glassworks undergoing serious problems following the loss of its foreign sales markets.

⁴⁶ The seasonal origin of the slight rise in unemployment was mentioned by the respondents e.g. in Elbląg, Nowa Sól, Sieradz, Siedlce.

The situation in locations with a predominance of agriculture should be analysed separately. In this group, the respondents listed the falling prices of agricultural produce (e.g. Ułhówek) and the increasing prices of products used in agriculture (fertilizers) as the symptoms of the crisis. At the same time, however, no serious deterioration of the economic and social situation could be observed in these locations.

As a rule, no differences were perceived in the surveyed locations in comparison with their surroundings. The only significant exception to this rule was Jastrzębie Zdrój, aware of its being different from other mining centres of Upper Silesia and perceived as a threatened city. Contrarily, no problems could be discerned in the nearby Rybnik. Similarly, Biłgoraj and Nowa Sól assessed their situation as better than in other surrounding areas.

4.4. THE THREATENED SECTORS AS PERCEIVED BY THE RESPONDENTS

Using the data collected in the survey, it is not possible to identify many locations where symptoms of deterioration are instantly recognisable, especially those which cannot be explained by a seasonal change or a natural process of change in the structure of employment or of enterprises. On the contrary, in some locations symptoms of growth are clearly visible (e.g. Dukla, Nowa Sól, Gołdap, Brzozów). The data suggesting possible difficulties and redundancies in enterprises indicate that such problems are the most insignificant in the service and construction sectors (excluding high-end residential construction). Investment projects implemented as part of the Cohesion policy and government programmes (road repair and construction, 'Orlik' pitches for schools, other technical and social infrastructure) largely account for a good situation in the construction industry. The few observable problems are mainly connected with industry, including export-oriented sectors (e.g. Piła and Krosno). This particularly applies to the automotive and metal industries (Kalisz, Kraśnik, Starachowice). The aforementioned Jastrzębie Zdrój is in a special situation because it is dependent on a single product dominating the local economy. An out-of-the ordinary situation was reported in Koszalin, where recently one of the Chinese companies operating in the local special economic (sub)zone apparently made an escape under the cover of the night, leaving its employers and the municipal authorities quite flabbergasted.

The survey also revealed one case of inertia in the perception of the economic situation of the respondents' home town. Despite the fact that the depreciation of the zloty improved rather than aggravated the terms of trade for the cross-border economy, at the time of the survey the respondents in Przemyśl were still concerned about the anticipated problems in trade with Slovakia, while for several weeks the direction of cross-border trade had been completely reversed in favour of Polish companies.

4.5. THE LABOUR MARKET SITUATION

As observed above, the overall situation in the labour market is stable and does not show any signs of deterioration. The actual redundancies are practically never mentioned as the observed symptoms of the crisis; only new employment has been suspended in some places. There are also places where employment is growing because of investments (mainly in large-format retail facilities). Recently, 400 new jobs were created in Pionki, but nevertheless its authorities are fearing a downturn even though they are more influenced by mass-media reports from other places in Poland than by their own judgment of the situation. In some other places, there is also a lot of concern about the future. This feeling

of uncertainty is justified only in some locations (Jastrzębie Zdrój, Krosno, Kraśnik, Kalisz to a much lesser extent). Generally, news circulated by the mass-media is taken with a pinch of salt. Smaller locations respond to this situation the most calmly; there is much less optimism visible in industrial centres which largely depend on foreign orders. It is mainly labour offices that point to the probably seasonal nature of labour market fluctuations and they – usually on the basis of mass-media reports from Poland and abroad – take into account the possibility that this situation will deteriorate in the second half of the year.

4.6. RETURNING EMIGRANTS

Despite the persistent mass-media reports informing about a large wave of returning economic migrants, which could considerably affect the labour market situation, the survey findings do not corroborate this. In the respondents' opinion, their returns are few and far between, evade official statistics and do not have any impact whatsoever on the local labour market situation. This opinion does not depend on the size or type of the respondents' location.

The process of re-emigrants' registration in labour offices could not be noticed in any of the surveyed locations; these were very rare cases. Some of the respondents emphasised that the crisis in the West did not necessarily make less wealthy countries (like Poland) a better place to wait through. A respondent in Pionki commented: *And who would like to return and take a PLN 1 500 job?* Returns from abroad on any larger scale could only be observed in Glucholązy, a city in the Opole region.

One of the respondents suggested that those who returned were taking in the situation, and some of them did not want to initiate the humiliating and unproductive contact with the labour office if there was no real need to do so. The respondents from Dukla observed that those who had returned were generally doing quite well, some started their own business. Such cases however were too few to allow for any generalisations.

In short, it can be said that in January 2009 there was no large-scale problem with finding work for the returning emigrants, although this phenomenon could sporadically be observed in some locations traditionally characterised by significant foreign migration levels.

4.7. OUTLOOK FOR THE FUTURE

In light of the information provided above, it should not be found very surprising that many respondents were viewing the future with uncertainty. However, they found it quite difficult to answer the question as to when such unfavourable change (improving or worsening of the situation) could be expected. The respondents did not anticipate any real improvement in the foreseeable future, and some (mainly in Jastrzębie Zdrój) expected a serious deterioration of the situation. In some cases (e.g. Radom, Grudziądz, Kock), the respondents' widespread expectation that there would be no further deterioration was due not so much to the current changes as to the consequences of protracted, delayed economic restructuring in their region (i.e. the situation is so bad that it cannot get worse). None of the respondents offered an opinion on the dynamics of the potential change.

In a nutshell, the prevailing stance among the respondents was that of wariness and cautious anticipation which – due to the lack of any widespread concerns that the situation would certainly get worse – can be seen as a proof that no commonly acknowledged crisis symptoms were experienced by the respondents.

In early 2009, symptoms of a serious crisis were not identified in any of the surveyed locations although some of them (Jastrzębie Zdrój, Krosno, Kraśnik) could soon face a difficult situation (redundancies or likelihood of redundancies). Worse still, alarmist newspaper headlines and TV or radio news bulletins, by inspiring feelings of uncertainty and danger, did play a role in delaying investments and suspending new employment by private companies. It can be concluded therefore that the majority of changes in the labour market were caused by seasonal fluctuations or other, natural phenomena which had nothing to do with the crisis. More frequently, symptoms of a worsening situation (or such concerns) could be observed in larger cities and industrial centres, mainly those in the automotive, metal or furniture sectors.

There can be little wonder therefore that on the whole no special measures are being taken. It is commonly believed that the key to overcoming any potential difficulties lies in public investments, and that EU funds provide a unique opportunity to increase their scale and thereby support development processes. It is also expected that the government will strive to create conditions fostering enterprise and facilitate access to EU funds.

In mid-quarter of 2009, despite a tangible feeling of uncertainty, in the majority of cases the crisis was not regarded as an obvious or foregone conclusion.

4.8. RECOMMENDED ACTIONS

Expectations of the local systems vis-à-vis the central authorities are uniform and commonly shared. As a priority, the government should create best possible conditions for the development of enterprise, and, according to some respondents, it simply 'should not interfere'. It is universally acknowledged that the first and foremost obligation of the government is to facilitate access to European Union funds and simplify the procedures concerning the award and transfer of funds, also in the form of down payments. It is also generally believed that the EU programmes provide a superb opportunity to avoid the negative consequences of the crisis as they can create new jobs and earning opportunities, and for this reason the EU funds should be spent as quickly as possible so that the profits from such activity could be quickly visible. Most respondents agreed that this was a universal remedy which could heal the situation at all levels of the territorial organisation, and which was equally beneficial for the country at large and for small localities. It was also pointed out that there existed justifiable circumstances for increasing public debt. Some respondents were of the opinion that the state should ensure more funds for the financing of community and social housing. By and large however, most respondents believed that investments (mainly EU-funded) provided the key to solving the approaching problems.

With regard to their own place of residence, the respondents' hopes were mainly related to investments, particularly those co-financed from the EU programmes. As regards measures undertaken so far, the situation is not clear. Some locations are not only planning new projects but have also been remarkably successful in raising external funding, and they are hoping to continue in this vein. In the case of some locations, the efforts in this regard have not been outstanding so far, and there is not too much ground to believe that this situation could be improved in any near future. Regarding this issue, the telephone interviews did not allow for any closer verification of the information provided by the respondents. Irrespective of the extent of the successes in securing external funding for development

so far, the respondents from all the surveyed locations declared a willingness to increase investment and to be more pro-active in using EU funds. As a rule, they did not launch any specific initiatives (although in some places such as Nowa Sól some anticipatory training programmes were started). In addition, some respondents mentioned the possibility to reduce taxes for local entrepreneurs, while in other locations the opinion prevails that in view of the fact that there is no crisis, no special measures are required (e.g. Lubawka).

5. CONCLUSIONS AND RECOMMENDATIONS FOR ECONOMIC AND REGIONAL POLICIES

This Report provides the first and comprehensive view of the manifestations of the crisis in Poland set against the background of changes in the global economy. The Report leads to the following conclusions:

1. At present, it is not possible to anticipate how the crisis will develop worldwide or in Poland. The situation is fraught with uncertainty, the developments are taking place too fast to be able to make any detailed predictions; some analysts refuse to make any forecasts, and if they do, they offer divergent visions of the future.
2. The situation in Poland is a function of the situation globally, particularly in Europe. This crisis did not originate in Poland; our country was in a much more sound economic situation than many economies which had earlier been regarded as very successful, and are now facing bankruptcy. Many of the present problems are indirectly (e.g. reductions in exports, withdrawing bank deposits) or directly (speculation on the zloty) induced from abroad. The crisis is approaching Poland as a peripheral and 'backwarded' country (which is now seen as Poland's advantage) with some delay. However, we cannot rule out the possibility that overcoming the crisis will be more difficult in Poland than in more-developed countries, especially in view of the fact that the situation likely to emerge in the wake of the crisis may not turn out to be favourable for Poland.
3. While acknowledging the objective existence of the crisis (more tangible in larger than in smaller, peripheral locations, and quite palpable in the 'sensitive' sectors), it should be concluded that the crisis 'publicity' on the eve of an economic slowdown in Poland was unjustified. This was mainly due to two factors: political skirmishes and infighting which use the crisis as a 'battleground' and the insufficient responsibility of the mass media which, in their pursuit of a 'hype', confuse facts for forecasts, exaggerate dangers and create an atmosphere of uncertainty, thereby undermining confidence in the future and affecting the business outlook. To some extent, this is a self-fulfilling prophecy – a factor which is particularly unfavourable in a situation fraught with uncertainty.
4. Regardless of how the crisis will actually develop, it can be expected that it can have an important 'cleansing' role, involving elimination of less competitive business entities. By this token, the crisis could alter the economic power of individual territorial systems and influence their competitiveness.
5. Any reflections on the structure of the global economy following the crisis quite naturally involve a heavy risk of error. It is indicated that the new 'green revolution' may prove to be the key development stimulus after the recession ends. Such a revolution will be based on new technologies of generating and utilising energy, and the economies with the most advanced capability for innovation will play a leading role in such a model of development.
6. An analysis of possible crisis development scenarios worldwide, and of its anticipated regional distribution in Poland indicates that in any situation that will ultimately evolve the economies and regions with a diversified socio-economic structure and high capacity for innovation will emerge from the crisis relatively stronger, even if they suffer greater losses arising from the recession and economic downturn. These losses will be the 'costs' of improving the competitive advantage of their economic structures, which have their theoretical explanation in Schumpeterian concept of 'creative destruction'. Such a phenomenon could be observed globally in the 1970s, and regionally in Poland both during the early phase of the collapse of the real socialism economy and during the

transformation recession. Highly-developed entities follow the 'sharp' J-curve trajectory, with a rapid fall that releases them from the burden of obsolete material and institutional structures, while backwarded entities are not able to undertake any deeper restructuring effort and have a lesser ability to develop in the new economic conditions.

7. Not only the crisis, but a mere portent of the crisis calls for reflection on the desirable activities in macroeconomic and regional policies. The basic sphere open for decision relates to the following dilemma: whether the efforts should be focused on preventive measures which will aim to minimise the potential negative consequences of the crisis or whether the overriding consideration should be the development of a strong international position of Poland in the global economy following the crisis? This contradiction is not necessarily inevitable but in some situations it is blatantly evident (to take an example: should we save uncompetitive enterprises and put the country in debt or let them go under without incurring sometimes huge public expenditure?).
8. An analysis of the sources of the crisis and its potential worldwide effects indicates that while formulating economic policies in a time of crisis the policy makers should look at the likely post-crisis situation rather than at the very process of the coming out of a potential recession. This is a proactive, and not reactive approach (the latter approach was unfortunately embraced in Poland in the 1980s, with a poor effect). Arguably, the negative consequences of the crisis should be minimised – on the condition however that this would not impair the development capability in a phase of growth. For this reason, when relating to the previous crises and their regional distribution, no efforts should be made to 'flatten' the J-curve reflecting the phase of the recession and later growth. Such a strategy will inevitably involve certain social consequences, but a failure to implement it could bring more lasting and even more painful social effects in the future, should the Polish economy prove to be less competitive and less innovative than those economies which choose to employ more ambitious and future-oriented measures to overcome recession⁴⁷.
9. However, the first government reactions do not seem to indicate that such an approach will prevail in Poland. Therefore, it can be regarded as particularly alarming that, when looking for ways to cut costs, the Government severely reduced the budget of the Ministry of Science and Higher Education (MNiSW), which was the third ministry in terms of expenditure reduction⁴⁸. Without resolving whether these cuts were macroeconomically justified (and economists are divided on this issue), it should be concluded that such a structure of the reductions does not seem to prove that the government in power finds it desirable to enhance the potential of science and its role in economic development. It is also disconcerting that at the same time extensive social packages are being planned, which should definitely be regarded as excessive when we take into account the actual development of the crisis in Poland so far. It should be borne in mind that currently we are paying the price for the never-attempted reform of public finances, as the share of fixed expenditure in public spending remains overly high.
10. It should also be remembered that the current crisis only postponed the resolving of problems that Poland cannot escape regardless of the crisis. Such problems include the inevitable energy crisis due

⁴⁷ The change of the structure of spending in China's anti-crisis measures can be seen as very instructive here: expenditure on basic infrastructure was curbed while expenditure on environmental protection, housing and particularly industry and new technologies was increased. Source: *The Economist*, 22 March 2009.

⁴⁸ After the Ministry of National Defence (MON) and the Ministry of Internal Affairs and Administration (MSWiA), see: <http://bi.gazeta.pl/im/2/6233/m6233622.jpg>.

to the shortage of electric power, which is bound to happen once the high dynamics of growth is back; reform of the public finance system; improving the competitiveness of the Polish economy, and many sectoral reforms. Any delays in their resolution will result in tensions and an increasing ill-adjustment of the Polish economy, and therefore the necessary efforts should not be postponed until 'after the crisis'; the challenges facing Poland should rather be taken on even when the crisis is approaching, or under way.

CONCLUSION

This Report should be treated as a preliminary analysis of the crisis developments in Poland, informed by a review of some studies discussing the processes taking place globally. The Report is based on surveys conducted in several dozen local systems and an analysis of the available statistical data, and as such cannot be viewed as an ultimate or in-depth work, especially in view of the fact that the crisis processes in Poland are in their nascent phase and that any forecasts on their directions or dynamics are virtually impossible, so as any predictions concerning the recession and slowdown in individual countries of the world.

The monitoring of the crisis should be done on a continuous basis. A special monitoring programme should be launched, using up-to-date statistics collected from various sources: analysis of tax receipts, money circulation, situation of banks, financial flows out of the country, retail sales, incomes and expenditures of households, labour market data, surveys of economic trends, opinion polls, etc. These analyses should be carried out on a territorial basis, and in this case the scale of the region (voivodship) would definitely be too broad. The studies and surveys should be enhanced by an in-depth monitoring of selected territorial systems.

Only with a full picture of the Polish crisis and its geography can we envisage undertaking rational measures which will strive to alleviate negative developments, and especially initiating such actions which will improve the competitiveness of the Polish economy in the phase of the coming out of the recession and recovery of the global economy.

Warsaw, 31 March 2009