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Dana Kutzleb

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Globalization has accounted for cultural and technological expansion over the last eight centuries. History has proven time and again that involvement in the global market assists domestic economic growth. This can mean great things for the world economy, as it regulates supply and demand and keeps consumer prices down. There is, however, an economic downside to globalization, as pointed out by Abdelal and Segal in their article "Has Globalization Passed its Peak?" They assert that the "foundation of globalization" and its economic benefits have been deteriorating in recent years (Abdelal, Segal 2007: 2). This is exemplified by how the recession that began solely in the United States in 2008 quickly spread throughout the world as a global recession, causing tremendous economic damage in many states. The collective member-states of the European Union were hit particularly hard by this recession, with all countries having an average GDP growth rate of -4% in 2009. That year, the only country in the EU to have a positive GDP growth rate, albeit significantly lower than normal, was Poland, where the GDP grew by 1.9%. The Czech Republic, a country with a similar location, history, and economic statistics to Poland, however, had a GDP growth rate of -4.5% (WorldBank.org). It will be examined, using Pzerworski and Teune's idea of a "Most Similar Systems" design, how Poland was able to avoid the economic recession while the very similar Czech Republic fell into recession along with the rest of the world, by concentrating on three major differences in the reactions between the two countries to the financial crisis: that Poland maintained a flexible exchange rate while the Czech Republic pegged its currency to the euro; that Poland has a very strong internal market stemming from its history as a communist state while the Czech Republic relies more on exports; and that Poland limited the amount that foreign investors could invest in the country pre-crisis while the Czech Republic did not regulate these investments and suffered as a result when the crisis hit. The possible rewards and consequences of changing currencies and becoming part of the Eurozone, something both Poland and the Czech Republic committed to do upon their joining of the European Union, will also be evaluated.

In Chapter Two of *The Logic of Comparative Social Inquiry,* Adam Przeworski and Henry Teune describe the approaches of research for comparative studies. Of the most common methods is what the authors call a "most similar systems" design. This design is optimal when attempting to determine which factors cause certain different phenomena in two systems with like qualities. Using this model, researchers study systems as similar to each other as feasibly possible. All of the similarities, according to Przeworski and Teune, are factors that can thus be accounted for when analyzing the differences between the systems. The aspects of the systems that are different, therefore, can be used to explain the different outcomes. In the case of Poland and the Czech Republic, this research approach is ideal for deducing why the Czech Republic fell into the recession while Poland was able to avoid it all together. There are multiple similar variables in these systems, thus eliminating these as possible causes for the different economic outcomes.

Poland and the Czech Republic share a 615 km border (CIA World Factbook), and have many aspects of history in common. Both gained sovereignty in 1918 just after World War I, after years of subjugation to various tribes and empires throughout early history. This sovereignty did not last long for either country, though, since both were occupied by Germany from the earliest days of World War II. The Czech Republic originally allied itself with Germany's superior forces, but after German secession of Czech industry, education systems, etc. the people revolted and the Nazi soldiers responded harshly. In 1945, the Red Army took the Czech Republic from German control but ultimately left the country when the Czechs joined the

Allies. Poland had a similar fate during World War II. Though there was an organized armed resistance by the Poles, their troops were outnumbered and were quickly taken over by German forces. When offered a deal to ally with the Soviets similar to that in the Czech Republic, however, the Polish citizens refused, fearing Stalin's communism almost as much as Hitler's Nazism. This resulted in Soviet occupation of Poland, and the Molotov-Ribbentrop pact partitioned the country between the Soviet Union and Germany. Upon the end of WWII in 1945, both countries fell under the Soviet sphere of influence and functioned under communist governments until the fall of the Soviet Union in 1989. Two years later, Hungary, Poland, and Czechoslovakia, which split two years later into the Czech Republic and Slovakia, established the Visegrad group, which promoted economic, military, and energy cooperation. Poland and the Czech Republic then together joined NATO in 1999 and the European Union on the same day in May of 2004. As per their treaties of accession with the EU, both countries are also obligated to join the Euro Area once all "convergence criteria" are met.

The demographics and economic statistics are also fairly similar in Poland and the Czech Republic. Both countries are considered to have a high human development index, with the Czech Republic ranking 28th in the world and Poland ranking 39th. This is a measure of prosperity in a country taking into consideration the population. According to HumanDevelopmentReports.org, "The HDI sets a minimum and a maximum for each dimension, called goalposts, and then shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1" (*Human Development Index* 2013: 1). Basically, the Human Development Index was created to quantify the living conditions of the population in a given country, and Poland and the Czech Republic rank closely according to this scale. According to Robert Putnam, the human condition and an environment of trust are what allow a country to prosper, be it socially, economically, technologically, etc. In his article "Tuning In, Tuning Out: The Strange Disappearance of Social Capital in America," Putnam asserts that "The performance of government and other social institutions is powerfully influenced by citizen engagement in community affairs" (Putnam 1995: 1). To Putnam, how involved citizens are in their government decides, at least in part, the extent to which this government can flourish. With Poland and the Czech Republic both ranking highly on the Human Development Index scale, it is clear that citizens in both countries take an active role in both governmental and civil life, and in return, their governments invest in their guardianship. Approximately 7% of the GDP in each country is allocated to healthcare, and approximately 5% goes toward education (CIA World Factbook). Median age and life expectancy in both countries are approximately 40 years and approximately 77 years respectively, indicating a highly educated population, with an over 99% literacy rate in both nations, living in a relatively stable political environment (CIA World Factbook). Governmentally, there are also significant similarities between Poland and the Czech Republic. They are structurally equivalent: each has three distinctive branches, meant to check the power of the others. Though in Poland there is a proportional representation system and in the Czech Republic politicians are elected by a popular vote, both nations have a bicameral legislature. In the executive branch, both countries are directed a by Prime Minister as head of government and a President as head of state, who is elected via popular vote and serves a five-year term in both countries. The judicial branch in each of these countries consists of multiple courts all subordinate to a Supreme Court. Though Poland is approximately four times the size of the Czech Republic and the GDP of the countries reflect this, GDP per capita figures are fairly similar: Poland's is $20,900 and the Czech Republic's $27,600 (CIA World Factbook). The inflation rate in the Czech Republic, according to the CIA World Factbook, is 3.3%, almost equal to Poland's 3.7% inflation rate. Though the Czech Republic relies more on industrial output than does Poland, the majority of exports from both countries are manufactured goods, more specifically machinery and transportation equipment.

Despite all of these similarities, however, Poland and the Czech Republic are in very different places economically, and had been even before the global recession in 2008. Though it was in 2009 the most prosperous country in the European Union, Poland in 2007 had among the lowest GDP per capita and among the highest unemployment rates, a status perpetuating even through the recession, though not nearly as distantly so. In Poland in 2007, the GDP per capita was $16,200, less than half the EU average of $32,700 (Index Mundi). The Czech Republic was, in 2007, far from the most prosperous country in the EU, but as a new member-state with a small landmass, had a respectable GDP per capita of $24, 500 (Index Mundi). The unemployment rate in the Czech Republic in 2007 was actually lower than that of the EU as a whole, with only 6.6% of its population out of work (Index Mundi). Poland's unemployment rate that year was nearly double that of the Czech Republic's, at an alarming 12.8% (Index Mundi). In 2009, with Poland's continual, however slow, growth and the Czech Republic's immersion into recession, these statistics began to equalize. For example, Poland's unemployment rate in 2009 was just under 10%, not much different from the Czech Republic's 8.1% or the EU's 9% (Index Mundi). In the same way, the inflation rate in Poland and the Czech Republic is similar today, but at the beginning of the recession, Poland's inflation rate was 2.9%, while it jumped from 2.5% to 6.3% in the Czech Republic in just the first year of the recession. While Poland's economy has remained stable throughout the financial crisis, the Czech Republic's has been very tumultuous over the past six years, staying consistent with that of the majority of member-states in the European Union.

Numerous explanations have been offered as to how Poland was able to avoid the global economic recession seemingly unscathed, while countries like the Czech Republic were so greatly affected. Some experts have attributed Poland's economic stability to an influx of funds awarded to the country in 2004, upon the commencement of membership in the European Union: Poland received over $1.7 billion from the EU in that year alone. Since 2007, Poland has been the recipient of the largest amount from EU investment funds, accepting nearly $92 billion over the past six years (Financial Times). Poul Thomsen, who serves as the mission chief of the IMF for Poland, calls the inflow of EU funds to Poland a "boost to growth" (Andersen 2010: 1). However, the Czech Republic has also received funds from the European Union since the inception of its membership. The funds allocated to the Czech Republic have been significantly less than those to Poland, but in 2009, the year with the most economic difference between the two countries, the net income from the EU per capita differed by only approximately $15. This implies that a flow of capital from the EU does not necessarily generate economic success or failure, as two countries receiving similar funding went in starkly different economic directions. Further, Leszek Balcerowicz, former chairman of the National Bank of Poland, asserts that funding from the EU actually halts economic growth, the extra capital lending itself to leadership complacency. He gives the example of the BELL countries, Bulgaria, Estonia, Lithuania, and Latvia, whose economies crashed in 2009 but were denied bailout funds by the EU. As a result, "these governments were forced to adopt harsher measures... Public spending was slashed, including for government salaries. The adjustment hurt but recovery came by 2010" (Kaminski 2012: 1). Balcerowicz compares these countries to those such as Greece, which has received seemingly limitless funding from fellow members of the European Union but remains in economic distress. Mr. Balcerowicz's opinion is by no means uncontested, however. German officials, serving consistently one of the most prosperous countries and the single largest distributor of bailout funds in the EU, believe that bailing out struggling nations in the Eurozone is vital to keeping the Euro area together. Another proposed reason for Poland's avoidance of the economic recession is Poland's being outside of the Eurozone. The Eurozone is tremendously feeling the effects of the economic crisis, some of its members more than others. Hauss and Haussman say of the Eurozone in their *Comparative Politics: Domestic Responses to Global Challenges* "The so-called Eurozone is in serious trouble" (Hauss, Haussman 2013: 175). Poland currently has a national currency, the zloty, which is nearly a quarter the value of the euro at present (XE.com). This is attributed to Poland's stability through the recession, but the Czech Republic's koruna is also outside the Euro Area and has been affected by the recession.

While simply having a national currency cannot alone account for Poland's avoiding the recession, Poland's ability to maintain a flexible exchange rate can certainly be considered a factor. Upon the collapse of the Soviet Union, many of the states that used the ruble developed national currencies, including Poland and the Czech Republic. With the uncertainty of their newfound liberation affecting their economies, however, many former Soviet states initiated a fixed exchange rate to combat inflation. Both Poland and the Czech Republic came to the realization that a fixed currency was too inflexible, but the two handled the situation differently. Poland briefly attempted many economic strategies eventually deemed too uncompromising until Polish leadership decided on a freely floating zloty. Martin Feldstein, an economics professors at Harvard University stresses the importance of a floating exchange rate in his article *The Little Currency That Couldn't*, which criticizes the inflexibility of the exchange rates in the Eurozone. He explains, "When a county has its own monetary policy, it can respond to a decline in demand by lowering interest rates to stimulate economic activity. But the ECB [European Central Bank] must make monetary policy based on the overall condition of all the countries in the monetary union" (Feldstein 2012: 2). Then, according to Feldstein, "This creates a situation in which interest rates are too high in those countries with rising unemployment and too low in those countries with rapidly rising wages" (Feldstein 2012: 2). The Czech Republic, upon its liberation from the Soviet Union, quickly implemented a currency board and is currently pegged to the euro. According to Guillermo Calvo and Carmen Reinhart's "Fear of Floating" published in the *Quarterly Journal of Economics,* emerging economies often fear the financial fragility that may come with a flexible currency. This, according to the authors, is why a country like the Czech Republic would choose to peg its currency to a stable 'hard' currency, like the euro. While typically a more stable move by a smaller economy, and certainly advantageous for the Czech Republic's future transition to the euro, this currency peg became a liability when the financial crisis hit. Since the Czech Republic's koruna has a fixed exchange rate that depends on the euro, when inflation and recession hit the Eurozone, it also hit the Czech Republic. Further, the currency peg also left the Czech government with fewer options to control inflation, since officials were unable to regulate the exchange rates according to the country's needs. As such, the Czech Republic was left with very few options to combat the financial crisis and react to the impending economic hardships, and consequently fell into a recession. The flexible exchange rate with "inflation targeting" (Calvo 2002: 2) employed by Poland turned out to be a major factor in Poland's ability to avoid the recession.

Floating exchange rates are not the only difference between Poland and the Czech Republic that has resulted in one's fall into economic recession and the other's maintenance of economic stability, however. Another contributing factor to Poland's unique economic position is the country's robust what the *Financial Times'* Neil Buckley calls "internal market" (Buckley

2012: 1). Further, Buckley asserts, quoting Andrzej Raczko, Poland's finance minister from 2003-2004, "A communist-era impulse helped maintain domestic demand as it fell sharply elsewhere. 'If there is a crisis, German households want to increase their savings,' …'In Poland, households want to spend money if there is a crisis, because they fear it means there will not be anything in the shops'" (Buckley 2012: 1). This "communist-era impulse" spurs Polish citizens to spend in times of economic hardship. Christine Esche, Katharina Timm, and Sandra Topalska argue that although the Polish citizens do not necessarily "wish to return to those times, it is easy for them to miss the moral conviction, pride, and brotherhood that is lacking in today's complex, globalized, and increasingly individualistic reality" (Esche, Timm, Topalska 2011: 6). Deniz Aksoy finds evidence of this trend in recent elections in Poland, wherein nationalist, Eurosceptic parties won a larger proportion of the votes and are "realigning…in Polish party politics" (Aksoy 2011: 74). The Polish citizens as a result have increased faith in Poland's domestic markets, leading to the tendency of the people to spend during economic difficulties. This seems counter-productive to citizens of countries such as Germany, or the Czech Republic, but internal demand and free flow of capital are a tremendous way of combating a recession. Because of this demand from within the borders of Poland, Polish GDP relies less on exports and foreign investment for economic stimulation. As opposed to the Czech Republic, whose GDP was comprised of nearly 70% revenue from exports in 2007, only 41% of the Polish GDP came from exports that year (Worldbank.org). Thus, when the economic recession hit in 2008 and there was less demand in the global market, the Czech Republic was affected more so than Poland.

This is true also with foreign investment and lending. Poland's government avoided investments in or lending to foreign governments in foreign currencies, which proved a well-strategized decision when many countries defaulted on their loans after 2008. Poland's banking sector also made it more difficult for foreign investors to invest in Poland, which had significantly less capital invested by foreign countries that the Czech Republic prior to 2008. As a result, Poland was less affected when these countries later rushed to withdraw these investments upon the economic downturn. The Czech Republic's banking sector, according to Standard and Poor's October 2012 "Banking Industry Country Risk Assessment: Czech Republic," is over 90% foreign-owned. Standard and Poor's goes on to report that this has been beneficial for the "disclosure and transparency" (S&P 2012: 6) of the Czech banking sector. However, these foreign-owned banks, though located in the Czech Republic, also had to endure the effects of the financial crisis from their respective countries, which complicated their responses to the difficulties. As a result, this, along with Kaminsky, Lyons, and Schmukler's assertion that "Withdrawals from emerging markets during recent crises were large" (Kaminsky, Lyons, Schmukler 2001: 7) also made banking in the Czech Republic more complex and left the government with fewer options to react to the impending recession, leading to further economic decline.

These factors that have helped Poland avoid the economic crisis, however, will not continue to be beneficial in the long term, and certainly will not remain so when it comes to adopting the euro. There are certain criteria that must be met for any member-state of the EU in order to enter the Eurozone, which neither Poland nor the Czech Republic meet at present. However, both Poland and the Czech Republic, in their treaties of accession to the EU, are obligated to adopt the euro as soon as they are able, since neither country negotiated an 'opt-out' clause upon their joining the EU. Based on the countries' economies today, this transition will go much smoother for the Czech Republic than for Poland. In the transition from a national currency to the euro, member-states of the EU participate in Exchange Rate Mechanism, "a system designed to avoid excessive exchange-rate fluctuations between the participating currencies and the euro that might disrupt economic stability within the single market" (*Exchange rate mechanism (ERM II) between the euro and participating national currencies* 2011: 1). Though neither Poland nor the Czech Republic participates in this program, which is one of the criteria that must be met in order to adopt the euro, the Czech Republic's currency peg functions in a similar way to the program. Regulating the exchange rate in Poland will be a rough transition and threatens inflation or economic instability. Also, in the Czech Republic, over 80% of trade in the Czech Republic is intra-European Union (EC.Europa.EU). This means that the vast majority of products imported into the Czech Republic are from EU member-states and a large amount of exported goods are shipped to EU member-states. This number is significantly lower in Poland, where the export sector is smaller, thus isolating the Polish citizens from trading in and interacting with the euro as frequently as Czech citizens. That Poland seems to be immune from a recession in the vast majority of states in the Eurozone in itself is telling; Poland's economy is isolated enough from the economies in the states in the Euro area that it can avoid a recession means that it is far from being in an advantageous place to adopt a new, common currency.

While both Poland and the Czech Republic have benefitted from the increasingly interdependent global market, the Czech Republic seems to be more receptive to the idea of economic cooperation. Utilizing Przeworski and Teune's concept of a "most similar systems" research design, it becomes clear that Poland's flexible exchange rate and its vast internal market have kept the country from experiencing the effects of the global economic crisis in 2008. These factors have made the difference between Poland and the Czech Republic, states which share a border, history, and selection of economic statistics. Upon analyzing how these countries will fare in their eventual adoption of the euro, however, it becomes clear that Poland's remoteness from its neighbors will instigate a more rocky transition into the Eurozone than for the Czech Republic, whose economy is intrinsically linked to that of its fellow EU member-states.