

Economic impact of COVID-19 pandemic measures on functioning of the enterprises from the selected branches in Poland

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Abstract. The article studies the effects of pandemic measures taken by the Central European states in order to minimize economic and human losses. The research is based on correlation between the goals and a final effect of the measure. The effects are analysed from sociological, humanitarian, financial and economic perspectives. The analysis covers both current and potential effects in terms measured by such indexes as alternative cost and non-achieved profit. The study refers to microeconomic and macroeconomic consequences of such measures.

Keywords: economic effect, pandemic, lockdown, profit, loss.

Introduction. COVID pandemic triggered each branch of the economy and in every country of the World causing enormous casualties and economic losses [1]. Most states made an attempt to stabilize the situation providing different solutions. One of the most common is the so-called *lock down*.

Lock downs mean literally locking the spheres of society's life, which are not essential for their existence, such as gastronomy, amusement, tourism, fitness, hotels et cetera, leaving only highly necessary branches as grocery shops and pharmacies [2]. However national governments often introduce so-called social distance and a maximum limit of consumers. Those steps boosted and involved the high development of e-commerce and online education, but on the other hand it pushed the enterprises which can not "go online" on technical reasons. The study will analyse this experience in Poland making a specific accent on its effectiveness and its justification of these costs. The analysis covers, as well, the branches which both were capable to adjust to the new conditions, and those ones that failed.

The purpose of the research is to identify economic tendencies based on the similar measures used in each case. The object of the study is enterprises triggered by COVID restrictions in Poland. The subject of the study is the changes in the companies functioning in the matter of pandemic measures.

Theoretical background. The current research is based on such theoretical concept as a contradiction between *supply-sided economics of supply and demand – sided economics*. The first approach says that demand should appear in natural way. This idea leads to the free market model and eliminates (*anarcho-liberalism*) or reduces to the necessity state interventionism (*libertarianism, laissez-faire*) [3, p. 372]. The second approach in contrary states that artificial demand increasing by using different interventionist tools (*Keynesism, social market economy*). According to the demand-sided economics, market restrictions, welfare spendings and redistribution of national income are justified when they promote the national producers and help consumers to purchase the bigger amount of production by increasing the purchasing powers and therefore the demand [4, p. 88, 189–91, 234–38, 256–61]. Both approaches considered as rational and justified. The question is which of them is more effective during the economic crisis.

In order to find the suitable solution, it's necessary to

know what economic crisis in terms of economics and finance is. According to Schumpeter's theory of economic development crisis is a natural stage of state and society functioning which appears when *economic equilibrium* [5, pp. 356–394] collapses and the demand can not cover the supply. The reason of that is disproportionality between national welfare gross and the increasing of supply. Firstly prices start to decrease for supply surplus to be sold. Secondly enterprises start to decrease the supply by reducing the employment which causes the decrease of demand. This process leads economy to the stage of depression. After reaching this moment the state have to choose the approach of rebooting the economy. The outcome of this choice will be represented in stagnation or revival, depending of its effectiveness and suitability.

Theoretical background. As a country Poland has a democratic regime with market-oriented economy [6]. It is a member of the European Union. Poland experienced socialist regime as an USSR satellite state, therefore it passed through the political and economic transformation [7]. It has its own currency (*Polish Zloty*) [8]. Being a member of *supranational* organization which EU is, has its pros and cons. According to the article 3 of the Treaty of the functioning of the European Union the international policy and movement of persons inside the Common Market area is the EU exclusive competence [9, art. 3]. At the same time this rule is considered as to be a guarantee of the freedom of movement (capital, persons, services, goods), which enables free trade area and single EU market proper functioning and therefore benefits from the economic integration. On the other hand the member states compromised the part of their sovereignty which is crucial in terms of international policy.

After the COVID-19 reached Europe the member states were not able to react quickly mainly because of EU Commission was postponing the movement limitation decision. After such act came into force, the majority of EU states already struggled from uncontrolled COVID spreading [10]. The first COVID-19 cases were noticed among those, who travelled or/and contacted with those, who travelled from Italy [11], the first EU country with COVID-19 infected persons. That way the disease relatively speeded to other EU countries. In that matter each state faced the economic challenge: the crisis was not avoidable, however the minimalizing this side effects was pretty realistic.

In March Poland decided to provide the first re-

restrictions, such as closing educational institutions and providing social distance [12, 13]. After the situation worsened it decided to limit other branches functioning such as gastronomy, entertainment and some categories of shops. Also the international travelling was limited. The nation was convinced those measures were temporary. Such decision involved quick unemployment rate increase [14] and GDP loss [15]. So the National Bank decided to reduce the basic reference interest rate [16] making loans more affordable and artificially reducing the national currency value. This made Polish product more competitive on foreign markets. Later the government provided so called “*Tarcza*” [17] or shield which was a temporary subvention for entrepreneurs and employees who lost the part of their income. The decision would be good if it was temporary solution. Referring to the American crisis experience consumption support is effective only in a short period [18]. If such policy is being held for a long period, people start being permanently dependant on social welfare system. That way they are not able to generate any income. In that matter they will not contribute to the state budget with income tax. As the result, the state will lose the resources necessary to support both entrepreneurs and consumers.

The next measure to stabilize the situation was providing new taxes. On the one hand the government faced the enormous state budget deficit related to GDP. Such decision could reduce the dangerous disproportion. On the other hand such measure was not favourable for both a consumer and a producer, who lost the source of their stable income. Furthermore, in autumn, 2020 the government provided the new lockdown which involved the similar results to spring, 2020, measures.

In order to analyse the practical consequences of such solution, we will be analyse some cases from the selected branches of Polish economy. It will show both micro- and macroeconomic effects.

The first case is gastronomy. Currently (06.01.2021) its functioning limited to delivery and “take and go” [19]. In that matter the restaurants and cafes, which were oriented on client servicing on place, lost a critical percentage of their income [20]. According to *Schumpeter's crisis circle* mentioned before, decreased demand provide to decrease of supply. In practice, that means that such enterprises have to hire delivery workers which means higher cost of their functions, which they have to compensate. The logical consequence of such problem was often being solved by reducing the employment. In the following conditions the restaurant rather needs delivery workers, than waiters. Such decision increased an unemployment. Workers who were qualified for a specific type of job lost the opportunity to do it. Furthermore, gastronomy limited functioning provides to new problems. After losing the pre-crisis demand the enterprise is forced to decrease the supply. In that matter they decrease the product purchasing, which means reducing the cooperation which their suppliers and logistic companies. Which leads to the fact, that due to restrictions which were addressed to the gastronomy branch, other branches which have no such restricting, face the similar problems: a need to reduce employment and production intensivity. After producers decreased the productions, the demand on energy and resources needed in production also decrease.

In that matter the energy sector needs to make the identical steps: decrease the production and employment. In order to hold the margin, energy companies needed to increase the prices of energy. This means the higher costs for both enterprises and households, who already lost the part of their income. As for restaurants, not each of them was capable to adapt to new conditions. Such restaurants as bars can not sell their products, as other gastronomic places do. Although some of them received/receive the financial assistance from “the shield” mentioned before, others were not capable to hold the market position and decider either to radically reduce the employment or liquidate the enterprise [21]. With massive bankruptcy, the restriction addressed to gastronomy concerned managerial and accounting staff. Smaller demand on the branches production/services causes smaller demand on tax, audit, marketing and general management services.

The second case is tourism. First of all, this branch was struggling the demand decrease because of natural demand decrease due consumers fear of being infected by COVID. Secondly, this branch functions with huge governmental restrictions similar to those used in gastronomy. However the government intervention in this particular can be described as “specific” [22]. Families with children received so called “*bony*” (*vouchers*) which they were able to use in some tourist enterprises by purchasing their services [23]. On one hand, it partly increased the demand which allowed the enterprises to sell their services/goods. On the other hand, this step increased the prices which decreased the purchasing power of those consumers, who did not receive such subvention. Also, this step caused that average purchasing power stayed stable, but the prices were raised. I other words that can be seen as an prices decrease with *ceteris paribus* (*with unchanged conditions*).

During winter period Poland faced an enormous growth of COVID infection and mortality cases [24]. Therefore the government introduced the next *lock down* limiting the functioning of touristic branch. Hotels, ski resorts, museums were closed for a long period of time. This time only selected enterprises received the limited amount of governmental subvention. On that matter those companies needed to make the similar steps as gastronomy did, and namely, reducing the employment and the supply. The problem is that in some cases (hotels, ski resorts) there firm are not able to go online or use delivery as gastronomy. The restriction introduced by the government meant simply closing the branch. This fact causes that logistic companies, travel agencies and other economic subjects which were cooperating with that branch also need to make those unpopular steps. The similar situation is with the managerial and accounting staff involved in such activity and cooperation with those companies.

It's important to mention that some macroeconomic and monetary decision also have an influence on enterprises functioning. In the spring, 2020, *NBP* (*National Bank of Poland*) decided to print extra cash in order to secure “shields” functioning [25]. After NBP reduced percentage and higher inflation which what caused by money printing, the households savings started to shrink, because the purchasing power of the national currency was depreciated. Therefore, the households have less

sources to invest, so the enterprises have less opportunity to develop the business.

Analysis and results. As two different demonstrate, the measure that government uses doesn't reach their goal in both cases. Instead of rebooting the economics which experienced major losses due to COVID pandemic, the government implemented limitations which caused malfunctioning, losses, currency depreciation, massive unemployment and budget shrinking (less income causes less flows from income tax; less consumption leads to less flows from value added tax). Potentially this situation can prolong the stagnation and complicate the economy *renaissance*. Moreover, the ineffectiveness of measures used by the government is already demonstrated in the Polish society. Such movements as "otwieramy" (we open) are dedicated to promoting of civil unrest and breaching the governmental restriction by opening the business and at the same time following their own sanitary measures.

Furthermore, some local administrative courts ruled [26, 27], that governmental restrictions breached the Constitution, which we consider as (article 22 [28]): any entrepreneurship limitation can be forces only the legal act, not the regulation. Also it says (article 233) that any kind

of act can be adopted only during the emergency state situation which should be provided by the Council of National Security. Therefore current governmental restrictions don't follow any of that conditions and hereby are unlawful. If those restriction are be held in future, this will provide state to the legal paradox where executive power actions have no legal power according to the judiciary power rulings.

Conclusion. The measures described in the research were criticized by both entrepreneurs and consumers. They were harmful and ineffective. The approach which was applied in the current situation was not effective as a long term solution. Both pandemic and government action were destructive for Polish economy. The crisis Poland is currently facing differs from previous ones such as The Great Depression and The World Economic Crisis in 2008. New challenges need new solutions.

The only rational solution which can fix the instability of Polish economy is rejecting the currently used measures based on the economy of demand and use the approach based on economy of supply, by letting entrepreneurs open the business with necessary sanitary measures, decreasing the taxation and turning the state policy to free-market vector.

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