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The Scope of Government's Support for Enterprises in Poland due to the Coronavirus Pandemic
Rozsah vládnej podpory podnikom v Poľsku v dôsledku pandémie koronavíru

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Abstract: As coronavirus emerged, the supporters of direct government interventions received additional arguments in their favour. Currently, almost every government at the globe is directly influencing national markets to decrease the economic impact of COVID-19. The author observes a paradox in COVID-19 situation – we can observe implementation of short term government policies to liberalize labour market, decrease employees' rights and direct funds to compensate for the decrease of demand. Yet, from economic theory, government actions are mostly considered to have a negative effect on the market. The author used present literature and reports of public and private institutions, which allowed to conclude, that while yet ongoing, the coronavirus effect may be overcome by the global economy in a little more, than a year. The objective of the paper is to evaluate the legitimacy of support for businesses from Polish government. This paper broadens the aspect of economic effects of COVID-19 outbreak and the scope of response of Polish government.

Key words: *Coronavirus. Economy. European Union. Poland. Anti-crisis shield.*

JEL Classification: H50.

Introduction

The coronavirus appeared in December 2019, spreading rapidly to other countries and having negative economic effects. The result of a direct pandemic support is an unprecedented in recent years decline in economic exchange.

Putting aside concerns about public healthcare system, the economic costs of strong social distancing measures imposed (Atkenson, 2020) – due to the closure of borders, shopping centres, restaurants and cultural facilities, a decline in global private consumption was recorded. Some economic sectors, such as the entertainment industry and, above all, the tourist and transport industry, experienced the strongest slowdown in economic activity. The COVID-19 outbreak has forced many business entities to shut down, resulting in a drop of GDP in every country on the globe. Retailers and multinational brands face serious short-term challenges and disruptions, which national markets can not overcome by itself – governments had to intervene to stabilize the conditions (Donthu, Gustafsson, 2020).

The recent sharp reaction in financial markets to the spread of the coronavirus in late February adds to the persisting financial vulnerabilities from the tensions between slower growth, high corporate debt and deteriorating credit quality, including in China (OECD, 2020). In the case of Poland, the COVID-19 pandemic is set to end nearly three decades of uninterrupted growth – in the second quarter of 2020 the GDP has decreased by 8.2%, which is the worst result in history.

The role of government in promoting and regulating economic development has been an important issue in discussion. This paper presents the scope of support for businesses from Polish government. In the first part, it introduces the theoretical background of government intervention. The next section describes the methodology applied. The section Results and discussion describes the economic effects of COVID-19, with focus on the presentation and evaluation of Polish government's support.

1. Theoretical background

Adam Smith, in his book Wealth of Nation, identified three main activities for the government: to create social security regulations, to establish an exact administration of justice and to provide public goods (Smith, 2000).

Yet today, the modern society demands various roles from the government: to protect the society, to perform redistribution of wealth, to assure employment and sustainable development – the evolution of the markets resulted also in expansion of the theories of government intervention. In an optimally efficient market, resources are perfectly allocated. In inefficient markets, however, some may have too much of a resource, while others do not have enough needed resources. The government tries to combat these inequities through regulation, taxation, and subsidies.

Presently, four main approaches can be distinguished:

– Neo-classical approach – very limited role for government interventions is accepted: only by employing lump sum taxes and transfers, however the intervention can not distort decision making process.
– Public choice approach – this approach regards the government as resulting spontaneously from a state of nature – its objectives is to maximise own utility, which creates favouritism of certain groups and high levels of inefficient outputs and supply. Government is assumed to maximise own personal interest, as does every rational economic agent.
– Transactions costs approach – market failures by themselves need not result in government intervention if individuals can deal with these imperfections. The transactions costs leading to market failures, the corrective powers of the State could support decrease the transactions costs.
– Information theoretic approach – the government intervenes in order to maximise social welfare in response to market failures arising out of imperfect information and because of incomplete risk markets. In the presence of imperfect information, the market would not be constrained Pareto efficient and government involvement would be welfare enhancing (Karnik, 1996).

One of the arguments opposing government interventions is based on government inability coordinate – which leads to socially wasteful results (Zenawi, 2012), which can also be observed in the case of Poland.

2. Material and methods

The aim of the research is to evaluate the legitimacy of support for businesses from Polish government. The author decided to use descriptive methods of the research, which would allow to compare the support of Polish government to other countries.

The collected data ware obtained from public sources (Eurostat, OECD) and reports from private companies (McKinsey, Business Centre Club).

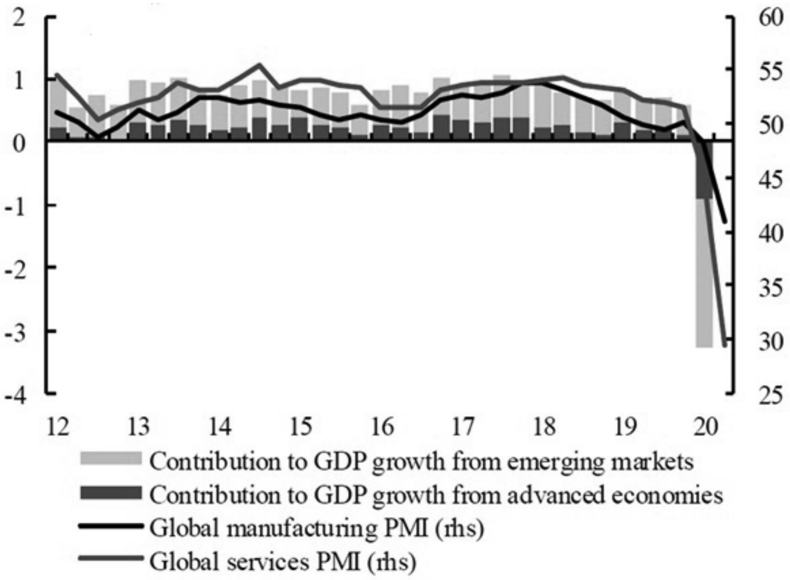
The analysis is based on four versions of government's anti-crisis support (Shield) in Poland. The Shield is a package of solutions prepared by the government to protect entrepreneurs and citizens from the crisis caused by the coronavirus pandemic. The support is aimed at protecting jobs and employee safety; maintaining the financial liquidity of enterprises; supporting the healthcare system; strengthening the financial system and maintaining public investments.

The following field of research offers prospects for further study, especially in the area of comparison of particular countries anti-crisis shields' and their efficiency and legitimacy.

Based on the accessible literature, a simple correlation can be noticed – the stronger the market failure, the bigger the necessary support from the government. According to McKinsey report (McKinsey company, 2020), the future normality will be shaped by metamorphosis of demand, an altered workplace, changes in resiliency expectations, regulatory uncertainty and evolution of the virus. Growth could be weaker still if the second-wave risk materialise. In the near-term, the major downside risk is that the impact of the coronavirus proves longer lasting and more intensive than projections assumed.

3. Results and discussion

Arising economic crisis can be observed in public data. Global GDP is expected to gradually recover, with an annual global GDP growth at around - 4.5% in 2020 and 4.5% in 2021. Global private consumption will decrease, as consumers change their economic activities and increase savings due to social distancing and high level of uncertainty. For example, International Air Transport Association estimated $30 billion loss of revenue for airline and tourist companies caused by the COVID-19 outbreak. GDP in the euro area felt down by 12.1% year on year, and in the entire EU by 11.9% (Eurostat, 2020). In turn, in the United Kingdom, GDP fell by a steep 20.4 % in the second quarter of 2020 (Data of Office for National Statistics).



Graph 1 Relation between PMI and GDP in emerging and advanced economies during COVID-19 outbreak
Source: OECD data, 2020.

As the spread of the virus is likely to continue disrupting economic activity and negatively impact manufacturing and service industries, especially in developed countries, we expect that financial markets will continue to be volatile. There is still a question whether this unfolding crisis will have a lasting structural impact on the global economy or largely short-term financial and economic consequences. In either case, it is evident that communicable diseases such as COVID-19 have the potential to inflict severe economic and financial costs on regional and global economies. Because of high transportation connectivity, globalization, and economic interconnectedness, it has been extremely difficult and costly to contain the virus and mitigate the importation risks once the disease started to spread in multiple locations. This warrants international collective action and global investment in vaccine development and distribution, as well as preventive measures including capacity building in real-time surveillance and the development of contact tracing capabilities at the national and international levels. As outbreaks of novel infections are not likely to disappear in the near future, proactive international actions are required not only to save lives but also to protect economic prosperity (Pak et al., 2020).

For instance, lockdowns, though could be effective in reducing new infections, increased the economic distancing as well thereby hurting the jobs and incomes of tens of millions of people. Despite the fact that long-term effect of these government actions yet has to be seen (Ashraf, 2020),

It is also worth mentioning that Romania gives relatively little support to its national economy. Direct government aid is only 1.2 % GDP. This is due to mistakes of the past –

the government pursued a pro-cyclical policy and brought the deficit to a high level. The Russian shield is also modest. Public support is targeted at those most in need. The policy is being eased by the local central bank, which will probably continue to ease monetary policy by lowering interest rates.

However, most successful examples of managing structural shifts are to be found in East Asia, where collective interests are a high priority and governments are not afraid to implement direct market intervention and aimed investment-financing in times of crisis. For example, in China, the production of protective masks had increased from 15 million a day in early February to over 100 million a day by the end of the very same month (Popov, 2020).

On 2nd April 2020, the European Union declared that it is allocating 100 billion EUR to overcome the crisis – to shape the EU's multi-annual budget for 2021-2027 to be a key part of the response to the crisis caused by the pandemic. Some funds are available and allocated to healthcare, masks, hospital equipment, support for small and medium-sized enterprises and short-term employment support programs. Poland, Spain, Italy, Romania and Hungary are the biggest beneficiaries of EU support. Poland will receive almost 7.5 billion EUR, of which over 1.1 billion EUR will flow immediately.

3.1 Anti-crisis shield in Poland

In general, the Polish anti-crisis shield, which value is estimated at around 11.3% GDP, is lower than the Hungarian (13.6% of GDP) and Czech (12.3% of GDP), but many times higher than Romanian (3.2% of GDP) and Russian (3% of GDP).

In the example of Poland, the most important fact is that direct government spending (rather than support from banks etc.) are the biggest in the region. Of course, it should be emphasized that it is not about nominal values (e. g. Germany has planned much more funds), but redistribution of funds, with additional discretionary spending on job protection, household income maintenance and business support. Overall, the above-average fiscal measures should reach 6.5%. GDP.

Shield 1.0, implemented on the 31st March 2020 by the Act on special solutions related to the prevention and combating of COVID-19, other infectious diseases and the crisis situations caused by them, was the primary tool prepared to support employers and employees, which consisted of:

- exemption from social security contributions,
- downtime benefits,
- co-financing of employees' salaries,
- a loan from the Labour Office,
- co-financing of the costs of business activities,
- co-financing of the salaries of employees sent to downtime,
- subsidizing the salaries of employees, with reduced working hours.

The rapid preparation of Shield 1.0 meant that it was necessary to prepare amendments and modifications in the form of Shield 2.0 (Act on specific support instruments in relation to the spread of SARS-CoV-2 virus), which expanded the scope of support to:

- lowering the tax rate to 0% for free delivery of laptops and tablets to educational institutions, humanitarian, charity or educational organizations,

– extending the possibility of introducing exemptions from real estate tax and extending the deadline for paying this tax in 2020 to non-governmental organizations,
– introduction of an exemption for small entrepreneurs from the obligation to pay 50% of unpaid social security contributions,
– at the request of the debtor, a possibility of a withdraw from charging interest for late payment on social security contributions,
– enabling local government units to use the fees for alcohol concessions in 2020 to fight the COVID-19 epidemic,
– abolishing some formalities for planning decisions and land development decisions in order to accelerate and maintain the investment processes of local governments.

Shield 2.0 did not eliminate all the imperfections related to the access to anti-crisis support, so another version was prepared, i.e. Shield 3.0 (Act on the amendment of certain acts regarding protective measures in connection with the spread of SARS-CoV-2 virus), which additionally introduced:
– change of regulations regarding exemptions from the obligation to pay contributions to Zakład Ubezpieczeń Społecznych (ZUS – Eng. Social Insurance Institution) – Shield 3.0 enabled entrepreneurs who, running own companies without employees, achieved income exceeding the current limits (i. e. approx. 15 thousand zloty), but at the same time achieved income, which did not exceed the level of 7 thousand zloty,
– suspended procedural deadlines and case consideration,
– protection mechanisms for people in a difficult financial situation – increased the amount of remuneration for work free from bailiff enforcement, which is to help people who unexpectedly found themselves in a difficult situation,
– anti-usury provisions with the provisions to the Penal Code, introducing penalization for demanding additional fees on loans or interest in excess of the statutory rates,
– provisions enabling foreigners to reduce the working time or remuneration for work. Previously, the regulations of the Shield 1.0 and 2.0 were contradict to the provisions on the employment of foreigners,
– Shield 3.0 also introduced so-called "Netflix-tax" – on-demand audio-visual service providers will be required to pay a fee of 1.5% to the Polish Film Institute.

Provisions of Shield 4.0 were designed to clarify or detail the previous provisions of shields. However, the provisions of the fourth Shield are much overdue, as most of the epidemic restrictions are currently lifted. Shield 4.0 introduced by Act on interest subsidies for bank loans granted to entrepreneurs affected by the effects of COVID-19 and on simplified proceedings for approval of an arrangement in connection with the occurrence of COVID-19:
– temporary increased protection of Polish companies – at the moment when its valuation has fallen – against hostile takeovers by investors from outside Europe and OECD,
– financial cover for local governments,
– the possibility for foundations and associations to apply for loans at labour offices,
– termination of non-competition agreements during the period of an epidemic threat or epidemic,
– facilitations for tendering contractors and ordering parties – abandonment of the option of changing the contract in favour of making it obligatory when the contracting authority

determines that the circumstances related to Covid-19 indicated by the contractor affect the proper performance of the contract,

– subsidies from the state budget to interest on bank loans for companies,

– importantly, a provision was added to Shield 4.0 that will allow thousands of parents of children up to the age of 8 to retain the right to care allowance – due to a mistake in Shield 3.0,

– easier access to credit holidays for those who have lost their source of income after 13th March.

It should be noted that the expectations of entrepreneurs in Poland are much higher than the offered government support. More than half of the companies postulate to enable entrepreneurs to freely dispose of the funds accumulated on VAT accounts (as split payment), and 42% of the respondents would like an exemption from social contributions for three months also for medium and large companies (Business Centre Club, 2020). In their opinion, the public support should be provided on a simplified approach, without a lot of exclusions and legal loops that make it difficult to receive quick financial aid. In the times of an economic slowdown, it is important to be protected against dishonest partnership – VAT exemption, if payment is not received from the contractor.

3.2 Evaluation of support in Poland

The longer the COVID-19 lasts, the longer the economic difficulties will remain. EU countries might not be able or willing to take the kind of measures adopted by China to stem the spread of the virus (due to political issues and national characteristics). In some countries we are observing the second wave of COVID-19 epidemic. We are likely already beyond the point where the virus can be contained in specific regions and so the real question is how much one can slow the spread of the virus using economically costly lock-down measures (Demertzis, 2020).

The author observes a paradox in COVID-19 situation – normally representatives of the neoclassical school (and of new neoclassical synthesis), believe in unregulated activities of the free market. On the other hand, New Keynesian's supporters reckon that the intervention of government institutions has a positive effect on demand and market as a whole. But in the COVID-19 situation, we can observe government policies to liberalize labour market, decrease employees' rights and direct funds to compensate for the decrease of demand.

Evaluation of the range of Polish government's support has to take into account projections of GDP, as future projections determine possible actions. Annually, Polish economy is projected to decrease by 4.3 % in 2020 and expand by 4.1 % in 2021, but the most important fact is that the Harmonised Index of Consumer Prices (HICP) inflation is projected to decline to 2.5 % in 2020 and increase only to 2.8 % in 2021, despite the high activity of Polish National Bank (NBP). It is worth noting that the increased resources did not result in an increase of inflation. The NBP aggressively lowered interest rates and accelerated purchases of government bonds – large expansion of the central bank has not negatively affected the zloty currency.

Table 1 GDP and inflation 2019-2021 in Poland

Indicators	2019	2020	2021
GDP growth (%, yoy)	4.1	-4.6	4.3
Inflation (%, yoy)	2.1	2.7	2.8

Source: Summer 2020 (Interim); European Economic Forecast 2020.

At first, no version of anti-crisis shield in Poland had financial support for any employees on a full-time job contract. All the financial compensations or support planned were distributed to entities, not working individuals. In the opinion of the author, this was an extremely important assumption at the beginning, as it allowed to deter any sudden spikes of unemployment, which effects during an economic crisis (along with a decrease of consumers' demand) might be devastating for the national economy.

Secondly, the government abandoned the idea of layoffs sent by e-mail, reduced working hours and salaries by 10% without the consent of the employee, the lack of group layoffs, the application of decreased provisions of collective agreements, allowed dismissal without the group layoff procedure, allowed employees to be sent to the so-called compulsory leave, also allowed the company to dispose of the company's social benefits fund – in the opinion of the author, such an increase of employers' power on the labour market would create a significant inequalities and result in public demonstrations.

Thirdly, in the latest version of anti-crisis shield (4.0) the government still introduced several modifications to employees' position at the labour market: the employers will decide on the date of the holiday leave; worse working conditions one year after the end of the epidemic; suspension of the social fund; reduction of employment and the possibility of lowering salaries in the field of public finances; limiting the control powers of the labour inspectorate, radical limitation of compensation pay, including retirement benefits - it seems, that the latest version of anti-crisis shield does not include new compensation or financial support (as the budget has its limitations); yet modifying legal regulations concerning employment does not constitute as a budgetary expenditure.

Fourthly, incomprehensible decisions of the government relate to the support of culture and art entities, who do not need immediate financial compensation. While it is justifiable to compensate theatres and museums, yet it is meaningless to compensate a wide group of entertainers, singers and TV stars with a total amount of 400 million PLN. This also confirms the argument against government intervention – government's inability to coordinate, which leads to inappropriate allocation of funds.

The last evaluation concerns expansive level of bureaucracy, which eliminates automatization in the process of acquiring compensations and financial support – any employers, who were interested in support from the government still had to fill out paper forms, which, due to COVID-19, had to be submitted in separate boxes outside public institutions.

In Poland also an important sociological factor can be observed – high expectations were awakened in the last few years by huge social transfers and now, despite a relatively large fiscal impulse, the assessment of aid programs is mediocre. Households do not perceive the aid as significantly supporting their income situation. Unfortunately, generous social programs and the multitude of promises with each election create a trap of unfulfilled expectations.

However, the latest economic data seem to confirm that negative economic effects of COVID-19 are significantly reduced. In Poland, the average salary in enterprises has already returned to the level from the beginning of the year – the period of wage cuts is slowly passing. At the same time, it is a signal that the labour market has not tilted so significantly towards the power of employers. Moreover, it is vital that the government support foreign direct investment, which are considered the most important exogenous tool for regional development (Uramova, Petka, 2016).

Conclusion

An appropriate study of the role of government must address the underlying reasons for justifying government intervention, especially in case of market failure, where growing negative effects could have led to total breakdown of national economies. Market imperfection and the weakness of institutions that are required to make them work efficiently, thus stating that government interventions are needed to improve on market outcomes (Lall, 2004).

In this paper, a range of government's support in Poland has been summarized and evaluated, also in comparison to other EU countries. Such a fiscal shield would not be possible without a large program of asset purchases by the central bank (NBP), which according to estimations may reach 8.4% – 10.4% of GDP and should be the highest in the region.

The government in Poland reacted to the COVID-19 with a set of regulations and provisions, which enabled financial support and compensations. Yet, the legal principles had to improve three times, which created unnecessary burden and confusion for employers. From the economic point of view, it has to be noted that the anti-crisis shield prevented from the most severe effects of COVID-19 pandemic (unemployment, sudden closure of entities in the markets, decrease of demand).

This paper offers a potential for future discussion – currently governments are liberalizing the labour market and decreasing employees' rights and privileges. But in the short-term future, union and employees' groups will force each government to turn to the previous status quo (at the expense of employers). Should we then see the comeback of employees' market or will employers block suspended privileges of own employees?

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