

A historical and economic perspective on the problem of inflation in Poland from the 1970s to the 1990s

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Abstract— Inflation has always been one of the most significant problems of market economies, and its nature and causes have changed throughout history. In Poland, it became particularly evident after World War I, reaching the scale of hyperinflation, and after World War II, it became a permanent element of economic processes. This article analyzes the definition of inflation, pointing out the difference between pure inflation and changes in the price structure, and presents the external and internal sources of the phenomenon. Particular attention is paid to the Polish experience of the 1970s, 1980s, and 1990s, when both overt and suppressed inflation occurred. The study emphasizes the importance of political factors, the trade balance, currency devaluation, and excess money supply. It also points to the role of the monetarist concept of inflation in shaping economic policy after 1989. The conclusions show that inflation is a complex phenomenon, resulting from political, economic, and social interconnectedness, and that its effective containment requires a balance between the money supply and the rate of production growth.

Keywords— inflation, Polish economy, hyperinflation, monetary policy, trade balance.

improved due to increased production orders from the belligerents. After the end of the wars, prices fell, generally reaching pre-war levels or even lower. Only after World War II did prices remain at wartime levels (Socha 1996).

The change in inflation caused by wars can be observed in Poland, where inflation reached unprecedented levels after World War I. Paper money issued in Poland in 1920 amounted to 49 billion marks and rose to 125,371 billion marks in 1923. State Treasury debt during this period rose from 60 billion marks to 11,332 billion marks. This rapid increase in inflation led to bank loans taking on the character of subsidies. This was further due to the fact that the interest rate on bank loans was symbolic in such a rapid inflationary environment, at around 8%. During the same period, the discount rate on bills of exchange purchased on the non-bank market reached 5,000% by the end of 1923 (Encyclopedia 1936). The nature of inflation as a phenomenon accompanying other events changed after World War II, when inflation became an inherent element of all economic processes occurring worldwide.

I. INTRODUCTION

From its inception to the present day, inflation has been and remains one of the most serious problems inherent in market economies, both theoretically and practically. The concept of inflation came into widespread theoretical and practical use after the Great Depression of 1929-1933 (Kamerschen 1991). In previous historical periods, inflation occurred relatively rarely and usually accompanied exceptional events, such as wars or political crises. When considering wars as causes of inflation, it is important to note the important phenomenon that prices rose not only in countries at war. Inflationary phenomena also occurred in neutral countries, as economic conditions

II. RESEARCH PART

Analyzing the definition of inflation, it is most often defined as a process of increasing average market prices for goods and services purchased over a given period of time, resulting in uncontrolled and socially unacceptable changes in the proportions of national income distribution (Mayre 1991). When defining inflation, it is important to remember that there is a phenomenon called pure inflation, which occurs when all prices of goods and services, including the prices of production factors, increase at the same rate. However, such a situation is exceptionally rare. To determine whether we are dealing with inflation, it is important to identify an increase in the overall



price level, not just an increase in the price of a single good or service or a small group of goods. When the price of a single good or group of goods increases, this increase may be offset by a decrease in the price of another good or group of goods. This increase has statistical significance and can be treated as a weighted average of the prices of a selected group of goods and services. Therefore, it is necessary to distinguish between inflationary price changes and changes in the price structure. Such a change in the price structure is natural for a normally functioning market economy and does not pose a threat to market equilibrium processes or economic growth.

The phenomenon of price changes for individual goods and groups of goods is referred to as a change in the price structure. In this case, it should be stated that "the general price level is not the price of a specific good; it is rather a theoretical construct with some theoretical significance, which can be treated approximately as the average price of a selected group of goods" (Milewski 1994). Externally, inflation manifests itself not only in an increase in the general price level but also in a decline in the exchange rate of the national currency against the foreign currency. In terms of value, however, inflation means a decline in the purchasing power of a nominal unit of a given currency, which means that the same amount of money can buy fewer and fewer goods from period to period, which also means that more work must be done to acquire the same amount of goods.

Considering both its manifestations and its consequences, various types of inflation can be observed in the Polish economy. Particular attention should be paid to the significance of the 1970s, 1980s, and 1990s for inflationary processes. During those years, the Polish economy experienced both overt and covert inflation. In the former case, inflation referred to phenomena based on the economy's experience of visible price increases. In the latter case, inflationary phenomena emerged as a result of hidden price increases, which occurred primarily in the 1980s (Owsiak 1997).

The source of overt inflation was a rise in prices to a level that was then equalized by the adjustment of supply and demand flows to the new price level. This type of inflation was most common in the early 1990s, following the introduction of so-called shock therapy by the then government of T. Mazowiecki and L. Balcerowicz.

The second type of inflation, suppressed inflation, occurred in the second half of the 1970s and 1980s. It emerged as a result of government-mandated price inflation, which led to massive demand and macroeconomic problems in the economy. This second type of inflation, characteristic of the Polish economy over a long period of time, has been described as delayed or deferred. These terms capture the essence of this type of inflation, characterized by the fact that the suppression of price growth, aimed at achieving market and monetary equilibrium, does not eliminate the problem but postpones it, thus further exacerbating it.

The Polish economy also experienced inflationary phenomena that can be characterized as both civilized and barbaric (Tudor 1999). This first inflation can be traced to the initial period of the 1970s, when the national economy was still

in equilibrium, especially with respect to consumer goods. At that time, a balanced market still existed. A completely different situation occurred in the late 1980s, but the inflationary phenomena that began in that period were particularly evident in the early 1990s, after the liberalization of prices and the commencement of market mechanisms. It is believed that barbaric inflation, in the classical sense, meant a long-term and profound state of disequilibrium that destroyed economic mechanisms and caused pathology in all components of social production. Although such a state was more characteristic of the previous period, the 1980s, the fact that the inflation of the early 1990s was unexpected allows it to be described as barbaric.

It's important to acknowledge that the nature of economic relations in the 1970s and 1980s was completely different from those in the 1990s. Nevertheless, the Polish economy reflects a certain consistency of the successive phenomena and processes characteristic of the current situation in Poland. Among these phenomena, inflation, too, was characteristic, having its origins in previous periods.

When analyzing the mechanism of inflation in Poland during the period under review, it is important to note that there are many different causes. Some of them are external to the Polish economy. An example is the rise in global oil prices in the 1970s, which directly influenced inflation in many countries, including Poland. However, a significant number of causes of inflation are internal in nature.

Many authors, including P. Duriasz J., Corbett K., Mayer C., and Kosterna U. (1994-1999), believe that political causes are among the most important. This view is also consistent with Poland, as political instability, caused by frequent changes of government, influenced the development of inflationary processes. The weakness of the governing structures led to an increase in the budget deficit and a decline in confidence in the national currency, which in turn contributed to the rise in inflation.

No less important for the emergence and development of inflation is the state of the country's balance of payments, the dynamics of which in Poland was most strongly influenced by the change in the trade balance (see Table 2.1.2).

TABLE 1: TRADE BALANCE DYNAMICS IN POLAND- IN % COMPARED TO PREVIOUS YEARS

Name	1991	1992	1993	1994	1995	1996
Export	-1.7	10.8	3.2	13.1	23.6	12.5
Import	29.6	1.7	13.2	11.3	24.3	28.0
Balance	-31.3	9.1	-10.1	1.8	-0.7	-15.5

Source: Statistical Yearbooks of the Central Statistical Office 1991-1996, Warsaw, Central Statistical Office Publishing House 1992-1997

This balance directly influenced decisions to devalue the zloty, which led to a continuous decline in the national currency's exchange rate. The devaluation of the national currency and its decline in value against foreign currencies resulted in higher prices for imported goods and a rise in inflation (see Table 2.1.3).

Currently, the causes of inflation are often considered to be the relationship between the money supply and the actual volume of production, which can be considered a key

component of the overall commodity-money balance in the economy. Therefore, it can be assumed that the mechanism of state regulation of the economy should be based on the assumption that the production process is a complex system in which three interrelated aspects can be distinguished: the circulation of material goods and services, the flow of income (corresponding to the circulation of material goods and services), and the flow of material values. Therefore, the state of the national economy and the volume of production are crucial. The money supply must correspond to the level of this production. If the money supply exceeds the value of goods produced in the country, an increase in financial resources occurs, which, in turn, leads to price increases and inflation.

TABLE 2: ZLOTY DEVALUATION INDICATORS AND THE INFLATION RATE IN 1991-1997 IN %

Date introduction	Indicator	Average annual inflation rate according to the GDP deflator
14/10/1991	1.8	55.3
August 27, 1993	1.6	38.5
13/09/1994	1.5	30.5
November 30, 1994	1.4	28.4
16/02/1995	1.2	28.2
8/01/1996	1.0	18.5

Source: Statistical Yearbooks of the Central Statistical Office 1991-1996, Warsaw, GU Publishing House, 1992-1997

An illustration of the mechanisms presented above is provided in Table 3, where, as can be seen, apart from individual periods, there is a positive correlation between the decline in money supply and the decline in the inflation level.

TABLE 3: ANNUAL DYNAMICS OF INFLATION, MONEY SUPPLY AND GDP IN %

Name	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1. Inflation											
1.1. Consumer Price Index	640.3	249.3	60.4	44.3	37.6	29.5	21.6	18.5	13.2	8.6	9.8
1.2. Deflator GDP	298.5	480.1	55.3	38.5	30.5	28.4	28.2	18.5	17.3	14.8	13.7
2. Money supply											
2.1. Total	527.3	157.9	47.4	57.5	36.0	38.2	34.9	29.4	27.1	25.2	18.6
2.2. National	190.5	396.3	64.8	57.2	28.8	38.7	50.2	34.4	31.1	22.6	21.9
3. GDP at comparable prices	0.9	0.2	-0.7	2.5	3.8	5.2	7.0	6.1	6.7	6.1	5.7

Source: Statistical Yearbooks of the Central Statistical Office 1989-1999, Warsaw, GUS Publishing House, 1990-2000

In the later years of the period under review, market equilibrium between supply and demand emerges at a new, higher price level. This fact is explained according to the quantity theory and is characteristic of the monetary theory, which attributes the primary cause of inflation to excessive budget spending, leading to budget deficits and public debt.

This is illustrated in Table 2.1.5.

TABLE 4: POLAND'S BUDGET DEFICIT AND PUBLIC DEBT

Name	1990	1991	1992	1993	1994	1995	1996
1. public debt – total, million zlotys	53300.0	65800.0	97900.0	133976.2	146211.5	160699.0	179200.6
% of GDP	95.1	81.4	85.2	86.0	69.5	55.6	49.4
includin g:							
1.1. Internal million zlotys	7000.0	12600.0	24200.0	35906.3	49850.1	59592.5	73206.6
on zlotys % GDP	12.5	15.6	21.1	23.0	23.7	20.6	20.2
% GDP							
1.2. External million zlotys	46300.0	53200.0	73700.0	98069.9	96361.4	101106.6	105994.0
on zlotys % GDP	82.6	65.8	64.1	63.0	45.8	35.0	29.2
% GDP							
2. Budget deficit, % of GDP	-0.4	3.8	6.0	2.8	2.7	2.6	2.5

Source: Statistical Yearbooks of the Central Statistical Office 1990-1996, Warsaw, GUS Publishing House, 1991-1997

Comparing the data presented in the tables, one can conclude that the authors of the monetary concept of macroeconomic policy, i.e., L. Balcerowicz, J. Lewandowski, J. Socha, and others, were correct in their assessment of the impact of the budget deficit on inflationary processes in Poland. They argued that, with the exception of 1992, when the budget deficit increased compared to the previous year and inflation fell, there was a clear, sustained simultaneous decline in inflation and the budget deficit. According to this concept, the second major cause of the inflation increase was the provision of excessively cheap loans, leading to the emergence of disequilibrium on the money market. The monetary explanation of inflationary processes is of particular importance for Poland, because this concept was recognized and applied in economic practice during the period of laying the foundations for the system of structural changes in 1989, and later, in the early 1990s (Dzierżawczyk 1999).

Other causes of inflation in Poland include high tax rates, which created an excessive burden on production costs in enterprises and led to higher sales prices, as well as the so-called inflationary spiral, which was, among other things, a consequence of the pressure and activities of trade unions, ultimately leading to price increases due to the equalization of supply and demand.

Yet another factor contributing to this type of inflation was

the rise in agricultural prices. This phenomenon is characteristic of developing and underdeveloped economies, where demand-pull inflation originated in this sector of the economy. In Poland, this situation resulted from the inelastic demand for these goods, and agricultural production was largely dependent on weather and climate conditions, as well as the natural biological cycle of plant growth. Thus, amid the limited growth in the supply of agricultural products on the one hand, and the rising wages that occurred in the 1970s and later in the 1980s, the demand for food commodities increased.

A similar situation, both in agricultural production and wage growth, also occurred in the 1990s (Bauc 1996). During this period, price freedom already existed, and therefore the increase in demand-pull inflation was fully evident. Phenomena such as full employment and increased government spending were characteristic of the 1970s and 1980s, but not of the 1990s, when employment declined, especially in the first years of that period. Nevertheless, other conditions that existed in Poland in the 1990s indicate that demand-pull inflation occurred during this period.

III. CONCLUSION

The Polish economy in the 1990s witnessed phenomena stemming from the assumption that one of the fundamental directions of anti-inflation policy should be the reduction of monetary demand, based on the monetarist concept of inflation, which focuses on changes in the amount of money in circulation. The main thrust of this theory is that only a market mechanism, limited as much as possible by external factors, especially administrative ones, can properly regulate the economy and counteract inflationary trends. From this perspective, limiting the role of state-owned enterprises in the economy is crucial. Counteracting inflation should, in this case, be based on mechanisms that balance the rate of money supply with the rate of real production growth.

The main methods used to achieve these goals, particularly in the early 1990s, included limiting government spending and the budget deficit, as well as limiting the issuance of money by the banking system through lending (Polański 1995). The consequences of such actions were not always positive. The slowdown in economic growth, or even its slowdown, was caused by the transfer of many funds from the private to the public sector (Owsiak 1997). Consequently, the losses resulted from the fact that in Poland this sector was less developed and less effective. When assessing the mechanisms presented above, it is important to note the basic patterns in which they emerged in the period under discussion. First, these mechanisms existed in the Polish economy over the long term, but they manifested themselves differently and at different rates of growth in different periods of its development. Second, observation of these mechanisms allows us to conclude that inflation is an extremely complex phenomenon, as it combines numerous factors and mechanisms of a political, economic, social, cultural, and other nature.

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