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Berlin School of Economics and Law (IPE)

POLITICAL ECONOMY OF GROWTH REGIMES IN POLAND AND TURKEY

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OUTLINE

1. Introduction
2. Theoretical framework: Growth regimes, social blocs and growth strategies
3. Growth regimes in Poland and Turkey
4. Political economy of growth regimes in Poland and Turkey
5. Conclusion

INTRODUCTION

- ▶ We aim to contribute to the growth regime/model debate within Comparative Capitalism
- ▶ Demand and growth regime approach (post-Keynesian macroeconomics, PKM)
+ dominant social blocs (critical Comparative Political Economy, CPE)
- ▶ The concept of growth strategies is used as a bridging concept between the dominant social bloc and the growth regime.
- ▶ The paper investigates the growth regimes of Poland and Turkey and the accompanying dominant social blocs and their growth strategies.

Contributions:

- 1) Conceptual calibration
- 2) Assess the growth regimes of Poland and Turkey
- 3) Assess the dominant social blocs and their growth strategies in Poland and Turkey
- 4) Establish links between changes in growth regimes, dominant social blocs and growth strategies

DEMAND AND GROWTH REGIMES

- Developed within PKM (Hein 2012).
 - Growth regimes are assessed by considering
 - 1) The **growth components/contributions** of the main demand aggregates:
 - Consumption (Private + Public),
 - Investment (Private + Public),
 - The balance of goods and services, i.e. of net exports.
 - 2) **Financial balances** of the main macroeconomic sectors:
 - the private sector (household and corporate sector)
 - the government sector; and
 - the external sector
- **Importance of demand:** demand sources of growth + how demand is financed and the related deficit dynamics.
- **Growth regimes may be unstable**
- **international interactions** between national growth regimes.

DEMAND AND GROWTH REGIMES

Export-led mercantilist	Weakly export-led	Domestic demand-led	Debt-led private demand (boom)
<ul style="list-style-type: none"> ▶ positive financial balances of the private sector, and the private household sector, ▶ negative financial balances of the external sector, ▶ positive balance of goods and services, ▶ positive growth contributions of net exports. 	<p>Either</p> <ul style="list-style-type: none"> ▶ positive financial balances of the private sector, ▶ negative financial balances of the external sector, ▶ positive balance of goods and services, ▶ negative growth contributions of net exports. <p>Or</p> <ul style="list-style-type: none"> ▶ negative but improving financial balances of domestic sectors, ▶ positive but declining financial balances of external sector, ▶ negative but improving net exports, ▶ positive growth contributions of net exports. 	<ul style="list-style-type: none"> ▶ Positive financial balances of the private household sector and positive or balanced financial balances of the private sector as a whole, ▶ balanced or positive financial balances of the external sector, ▶ growth is almost exclusively driven by domestic demand, ▶ around zero growth contribution of net exports. 	<ul style="list-style-type: none"> ▶ negative or close to balance financial balances of the private sector, ▶ positive financial balances of the external sector, ▶ significant growth contributions of domestic demand, and private demand in particular, ▶ negative growth contributions of net exports.

Source: Dünhaupt and Hein (2019, p. 458).

POST-KEYNESIAN MACROECONOMICS

Demand and growth regimes

- Empirical manifestation of growth and demand components and their financing
- International interplay between different national demand and growth regimes
- Not necessarily stable

Macroeconomic policy regime and growth drivers

- Set of macroeconomic policies against institutional background
+ further factors influencing aggregate demand and growth
- Only partly the result of the growth strategy also influenced by external events and short-term reactions

COMPARATIVE POLITICAL ECONOMY

Dominant social bloc

- Coalition of (cross-class/sectoral) social groups with shared interests/growth strategy
- Determines policies and institutional setting to achieve strategy
- May change over time
- Possible components: business associations, labour unions, subaltern classes, farmers etc.

Growth strategy

- Economic policy project by the DSB, i.e. intention of the DSB
- Enacted via institutional settings and policies thereby influencing macroeconomic policies and growth drivers → demand and growth regime

SHIFT OF DEMAND AND GROWTH REGIMES

		Post 2007-09 crisis			
		Debt-led private demand (boom)	Domestic demand-led with high public sector deficits	Weakly export-led	Export-led mercantilist
Pre 2007-2009 crisis	Debt-led private demand (boom)	South Africa	New Zealand UK USA South Africa	Australia Greece Portugal Slovakia Spain	Estonia Hungary Ireland Latvia Spain
	Domestic demand led	Turkey	France India	Italy Mexico Poland Portugal	EA-12 Italy
	Weakly export-led		Canada Brazil	Czech Rep. Iceland Norway	Denmark Russia Slovenia
	Export-led mercantilist		Argentina Finland	Austria Belgium China Japan Sweden	Austria Belgium Germany Korea Luxembourg Netherlands Switzerland

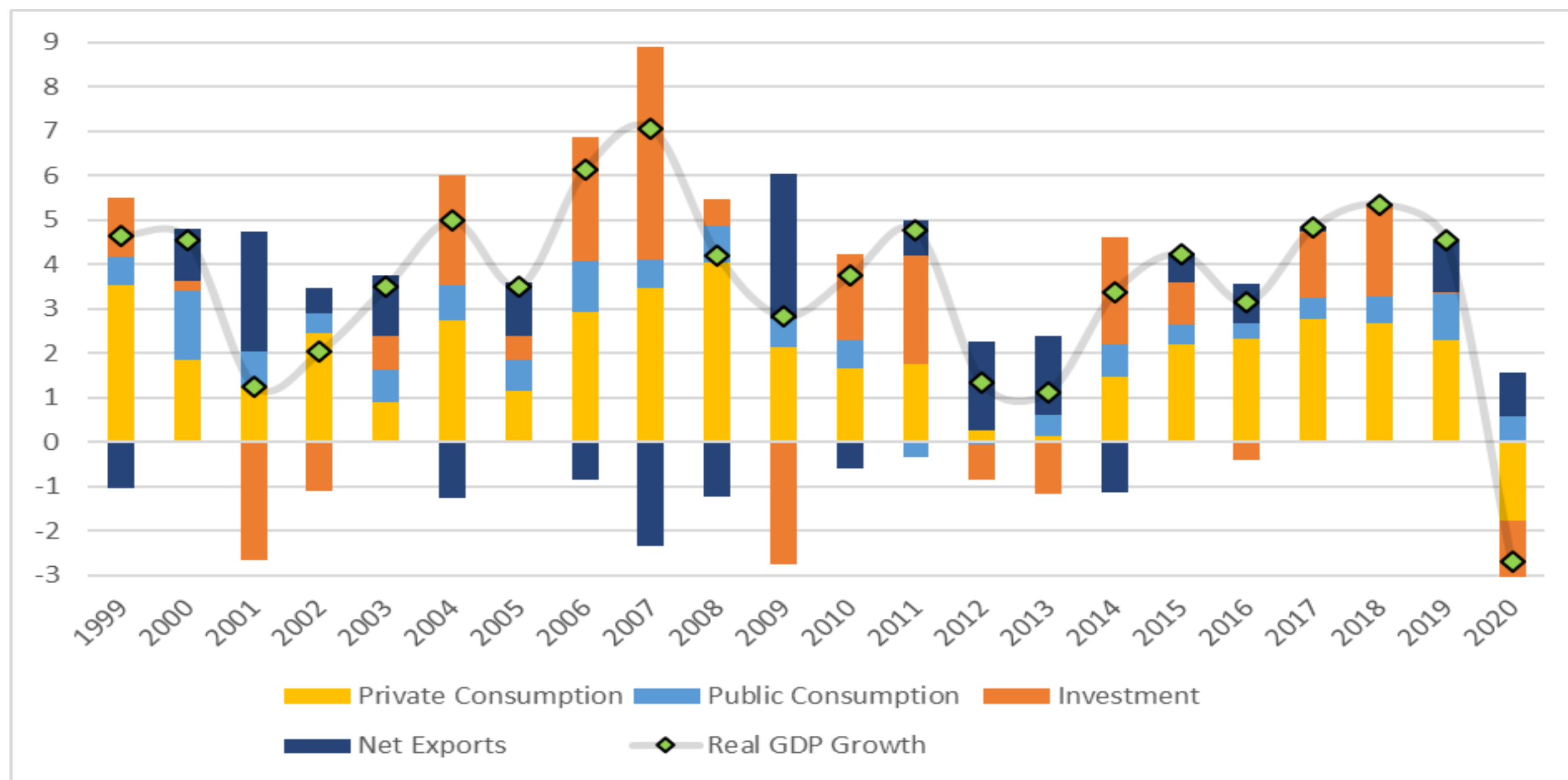
Notes: Different categorization for the same country are due to slight differences in the periodization.

Sources: see Akcay et al (2021).

GROWTH REGIMES IN POLAND AND TURKEY

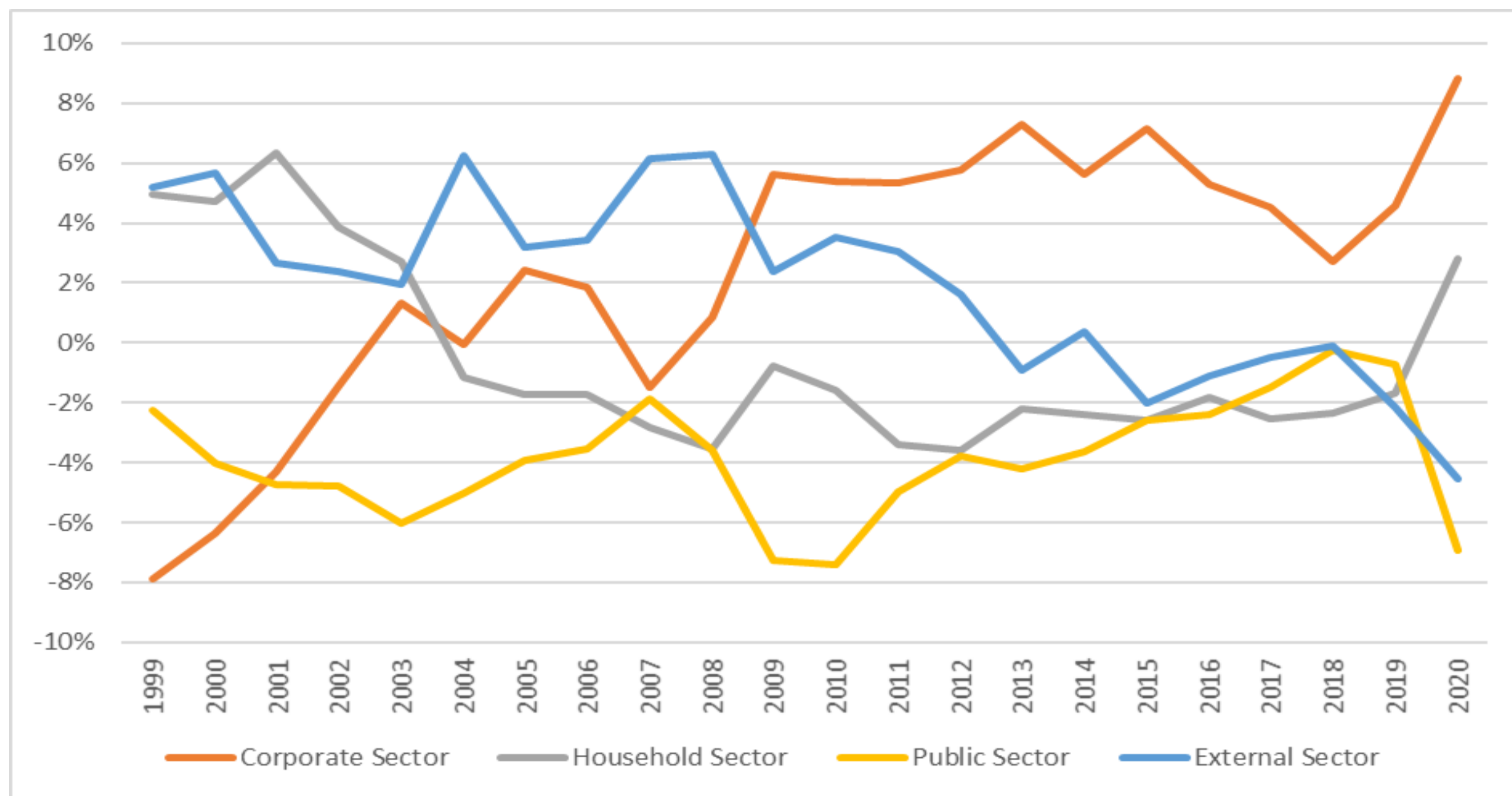
	Pre Global Financial Crisis	Post Global Financial Crisis	
Poland	Domestic demand-led regime	Weakly export-led regime	
	Pre Global Financial Crisis	2010-2013	2014 onwards
Turkey	Domestic demand-led regime	Debt-led private demand (boom) regime	Weakly export-led regime

GROWTH REGIMES IN POLAND



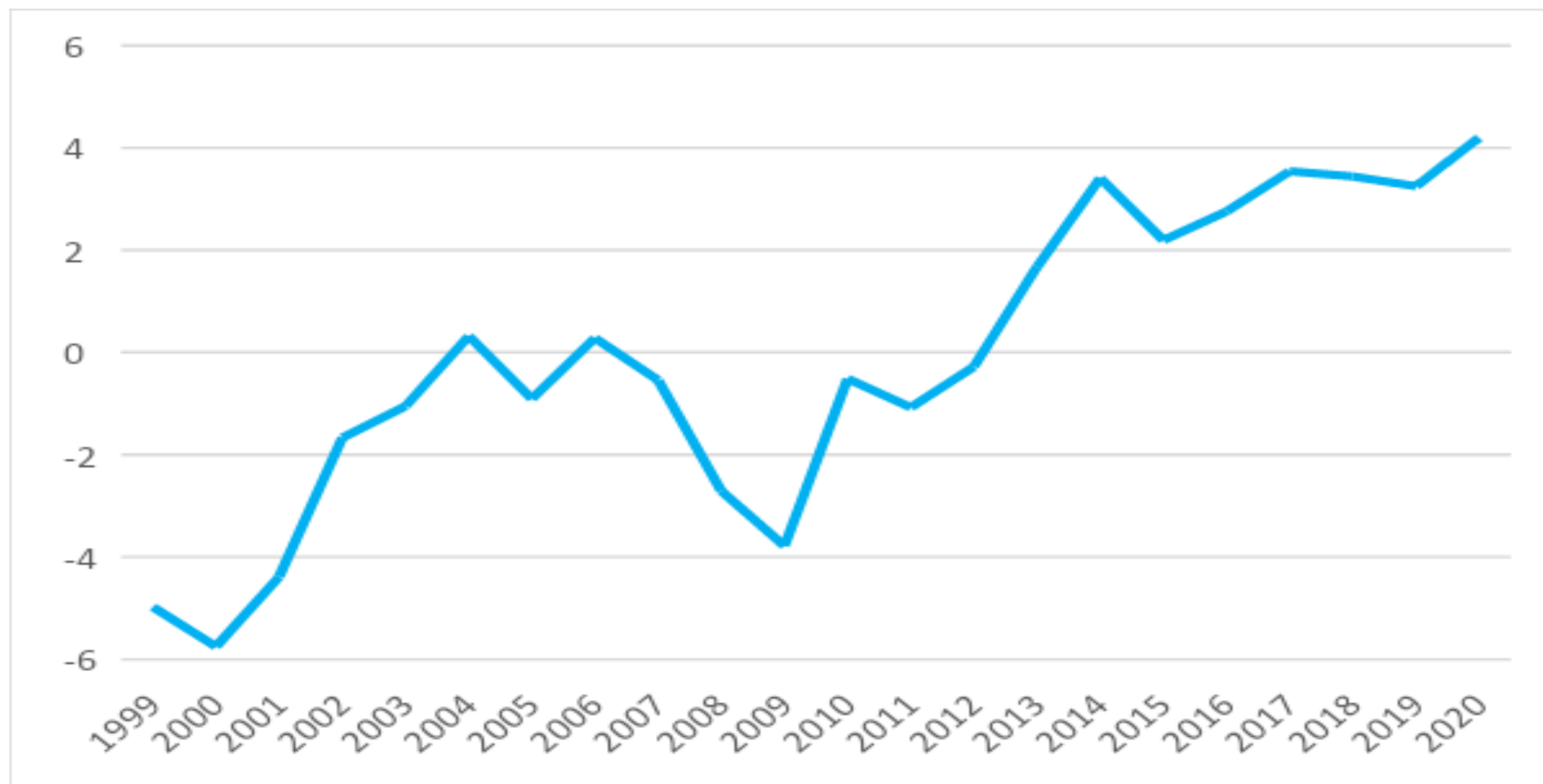
Growth Contributions and Real GDP Growth of Poland in %, 1999-2020. Source: World Bank.

GROWTH REGIMES IN POLAND



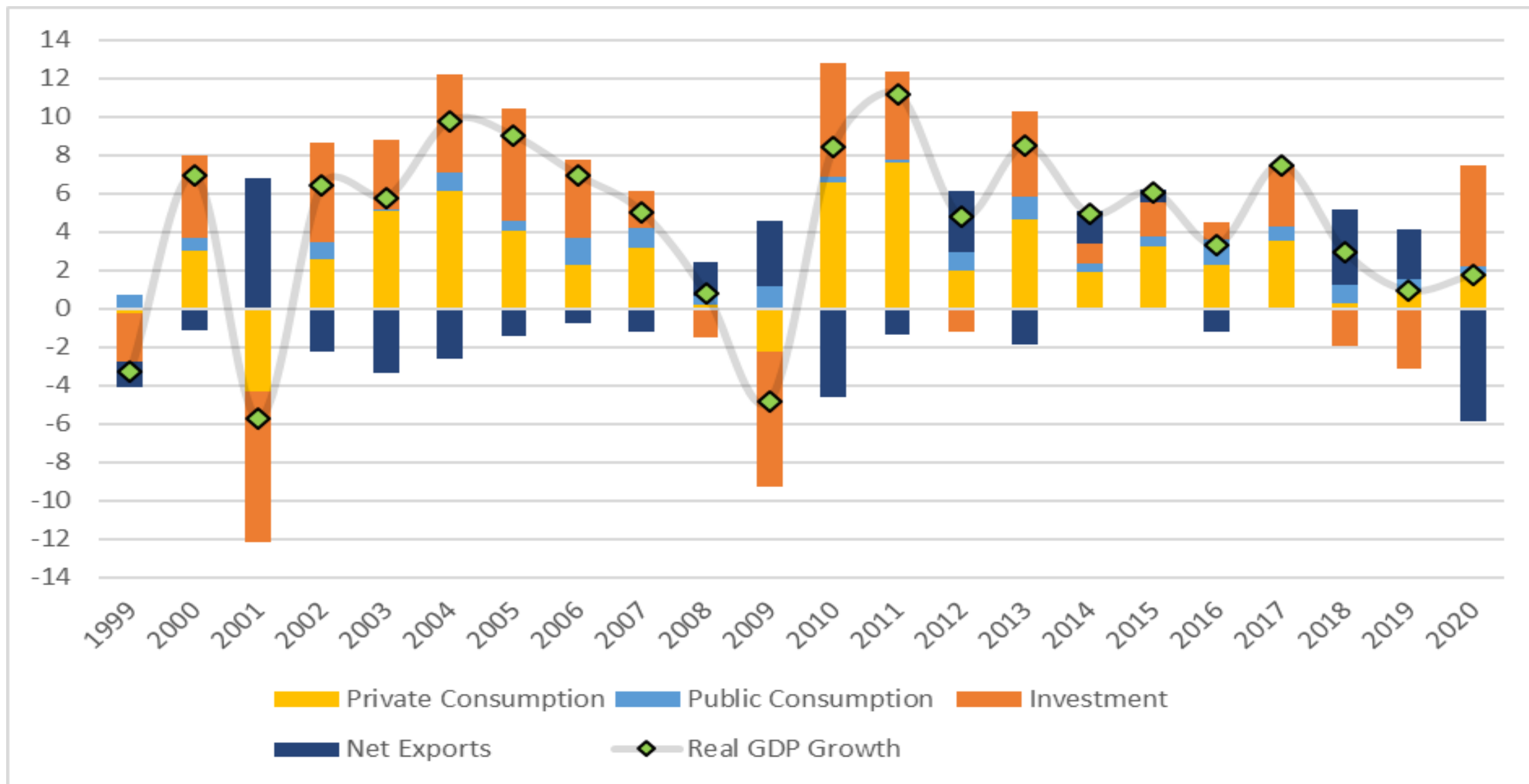
Sectoral Financial Balances Poland, % of GDP, 1999-2020. Source: AMECO database.

GROWTH REGIMES IN POLAND



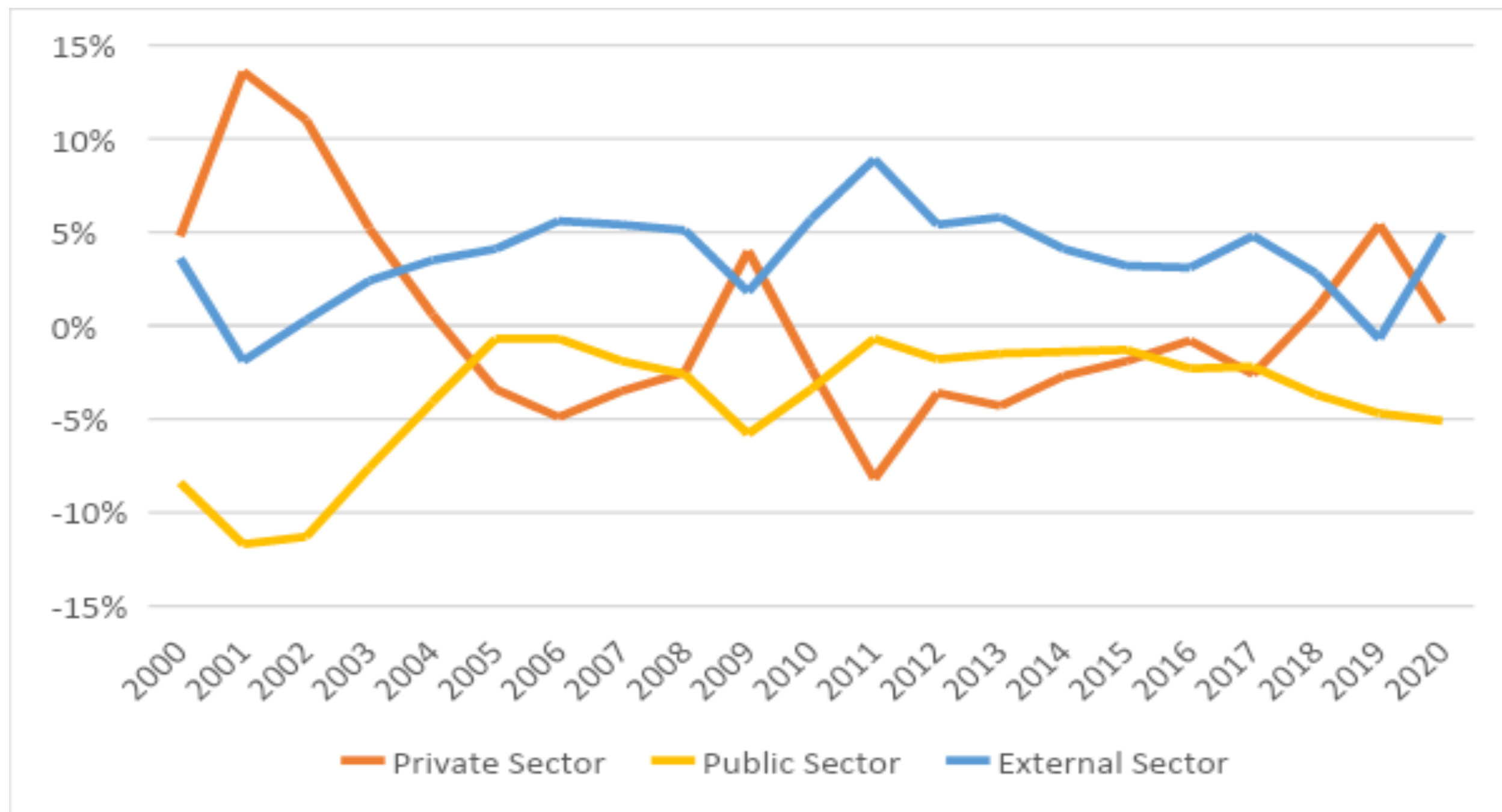
Net Exports Poland, % of GDP, 1999-2020. Source: World Bank.

GROWTH REGIMES IN TURKEY



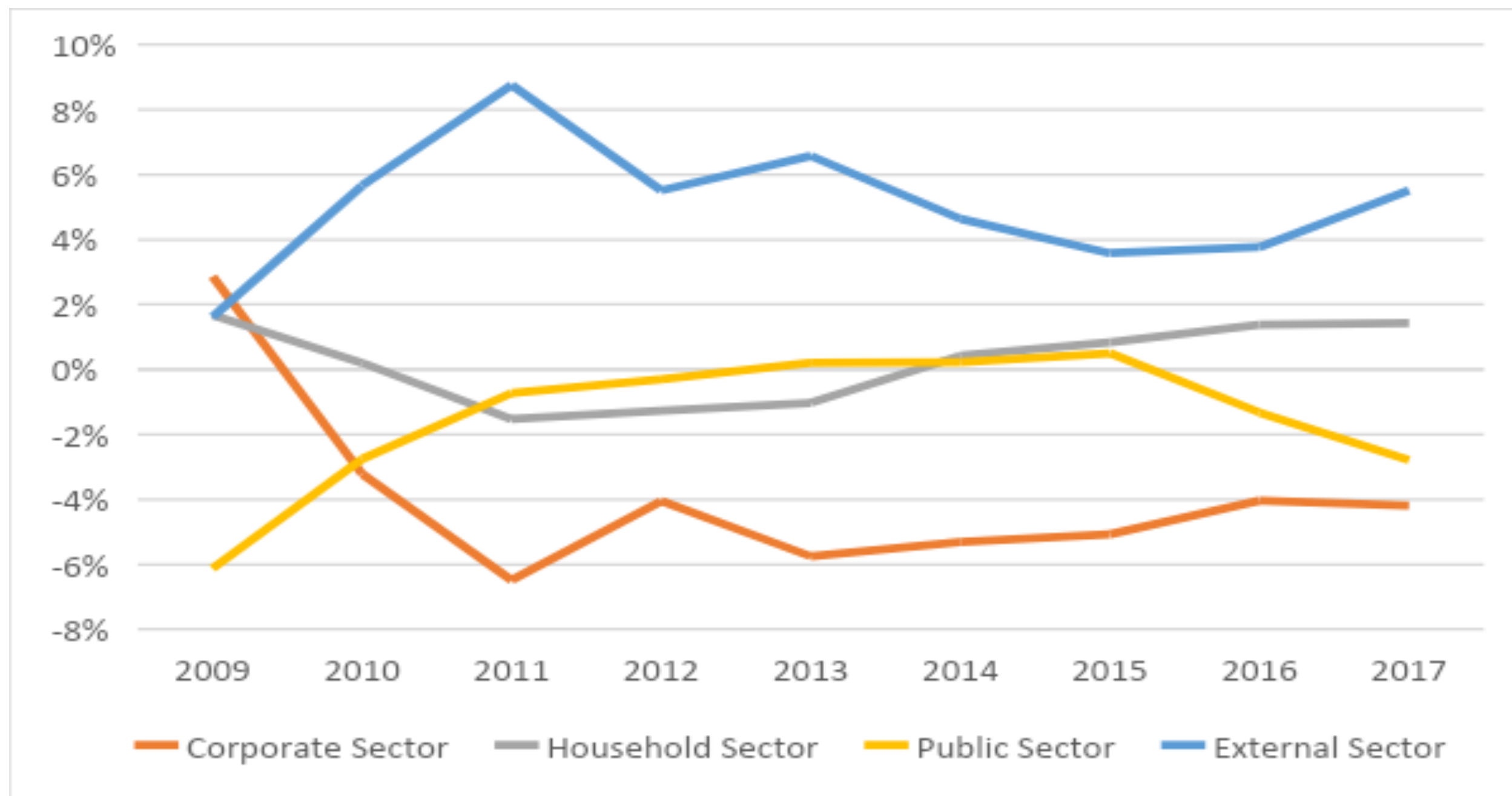
Growth Contributions and Real GDP Growth of Poland in %, 1999-2020. Source: World Bank.

GROWTH REGIMES IN TURKEY



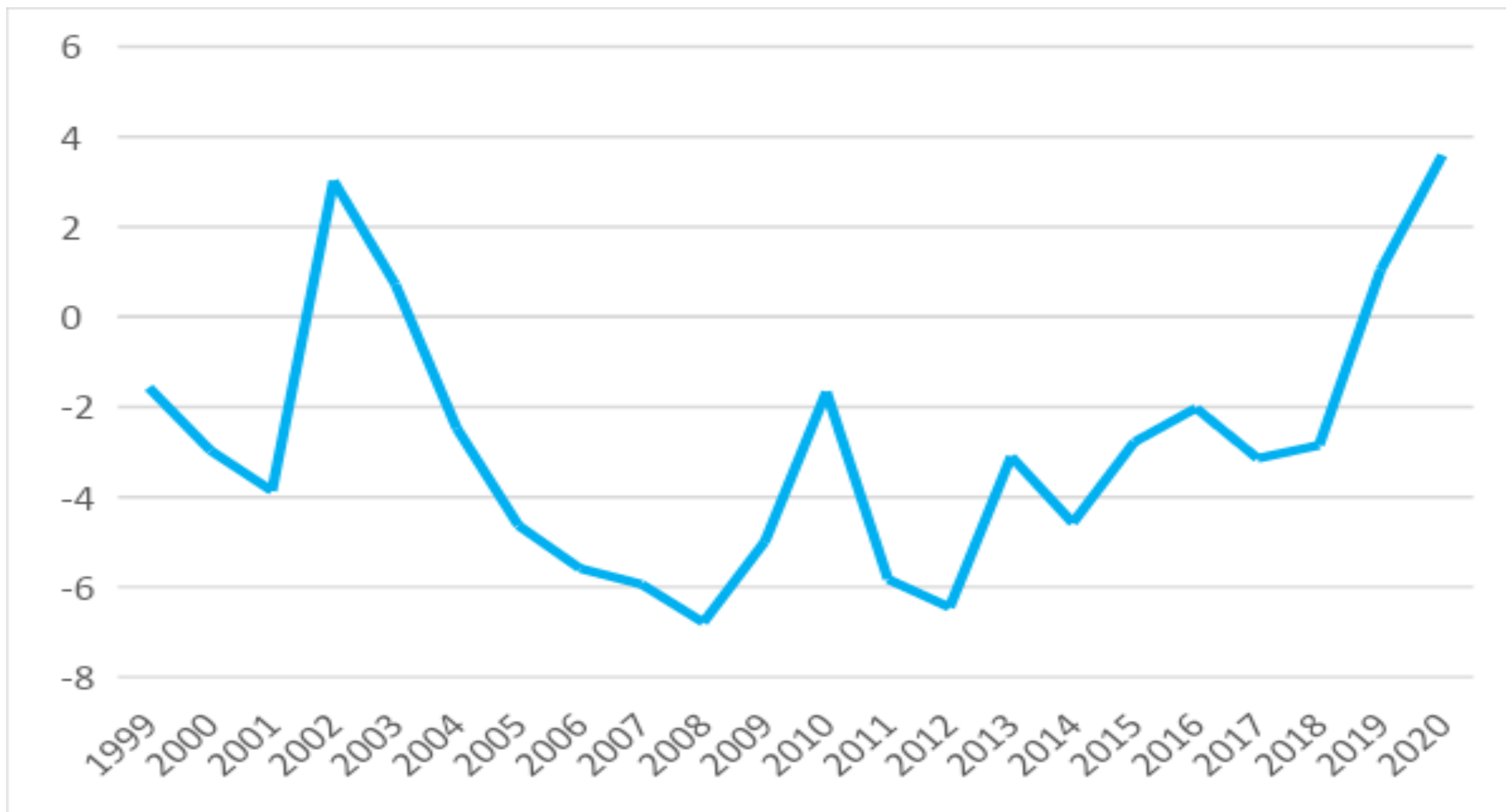
Sectoral Financial Balances Turkey, % of GDP, 1999-2020. Source: World Bank.

GROWTH REGIMES IN TURKEY



Sectoral Financial Balances Turkey with a disaggregated private sector, % of GDP, 2009-2017.
Source: AMECO database.

GROWTH REGIMES IN TURKEY



Net Exports Turkey, % of GDP, 1999-2020. Source: World Bank.

GROWTH REGIMES IN POLAND AND TURKEY

	Pre Global Financial Crisis	Post Global Financial Crisis	
Poland	Domestic demand-led regime	Weakly export-led regime	
	Pre Global Financial Crisis	2010-2013	2014 onwards
Turkey	Domestic demand-led regime	Debt-led private demand (boom) regime	Weakly export-led regime

“growth models do not emerge out of thin air. Rather, they are a product of those strategies that key actors - governments, producer groups, and business elites - pursue to secure investment and profitability and, in turn, income and employment growth” (Bohle & Regan, 2021)

GROWTH REGIMES, DOMINANT SOCIAL BLOCS AND STRATEGIES

	Poland	Turkey
Dominant Social Bloc	<ul style="list-style-type: none">▶ A change in dominant social bloc	<ul style="list-style-type: none">▶ A change in dominant social bloc
	<ul style="list-style-type: none">▶ Agenda of deepening of market reforms (EU membership) → Alienated the traditional low-skilled blue color workers → Erosion of the previous DSB▶ Narrowing support for the political center and the rise of the nationalist conservative powers under the leadership of PiS▶ New DSB (blue-collar workers, the nationalist conservative political class, the local managers of MNCs, (Naczyk, 2021)) → new agenda of developmentalism.	<ul style="list-style-type: none">▶ Slowing growth rates undermined the previous social bloc, which consisted of both core capitalists, and subaltern classes.▶ Increasing weight of peripheral capitalists in the dominant social bloc → contradictory macroeconomic tendencies, i.e. coexistence of more developmental and orthodox orientations.▶ Search for alternative growth strategies

POLITICAL ECONOMY OF GROWTH REGIMES IN POLAND

- ▶ 1st wave of market reforms were marked by the “shock therapy” program
- ▶ 2nd wave of market reforms started with the EU membership process
 - ▶ Decline of social democracy during the second wave of market reforms
- ▶ 3rd wave of market reforms followed the Global Financial Crisis
 - ▶ Decline of centrist politics (rise of nationalist-conservative PiS)
 - ▶ Rise of concerns on the “dependent market economy” model of Poland among state managers (increasingly felt as sensitive and a national security issue).
 - ▶ Business mobilization for a new growth strategy that aims to consolidate the changes in growth regime

POLITICAL ECONOMY OF GROWTH REGIMES IN POLAND

- ▶ Business mobilization for a new growth strategy
 - ▶ “re-Polanization” of crucial sectors such as banking, insurance, energy and retail (Naczyk, 2021),
 - ▶ introducing a new policy framework to support re-industrialization (Kozarzewski, 2019)
 - ▶ aims to challenge its existing mode of integration to GVCs as a “dependent market economy”
- ▶ The key actor → local managers of multinational companies (Naczyk, 2021).
 - ▶ “barriers to their managerial autonomy and career advancement in MNCs” (p.12)
 - ▶ 2008 GFC → “the threat of disinvestment by their own companies helped to crystallize Polish top managers’ – particularly bankers’ – frustrations about their relative lack of managerial autonomy and their belief that MNCs have a “nationality”” (p.12)
 - ▶ Lobbying through business associations + “using their close personal links with party politicians”

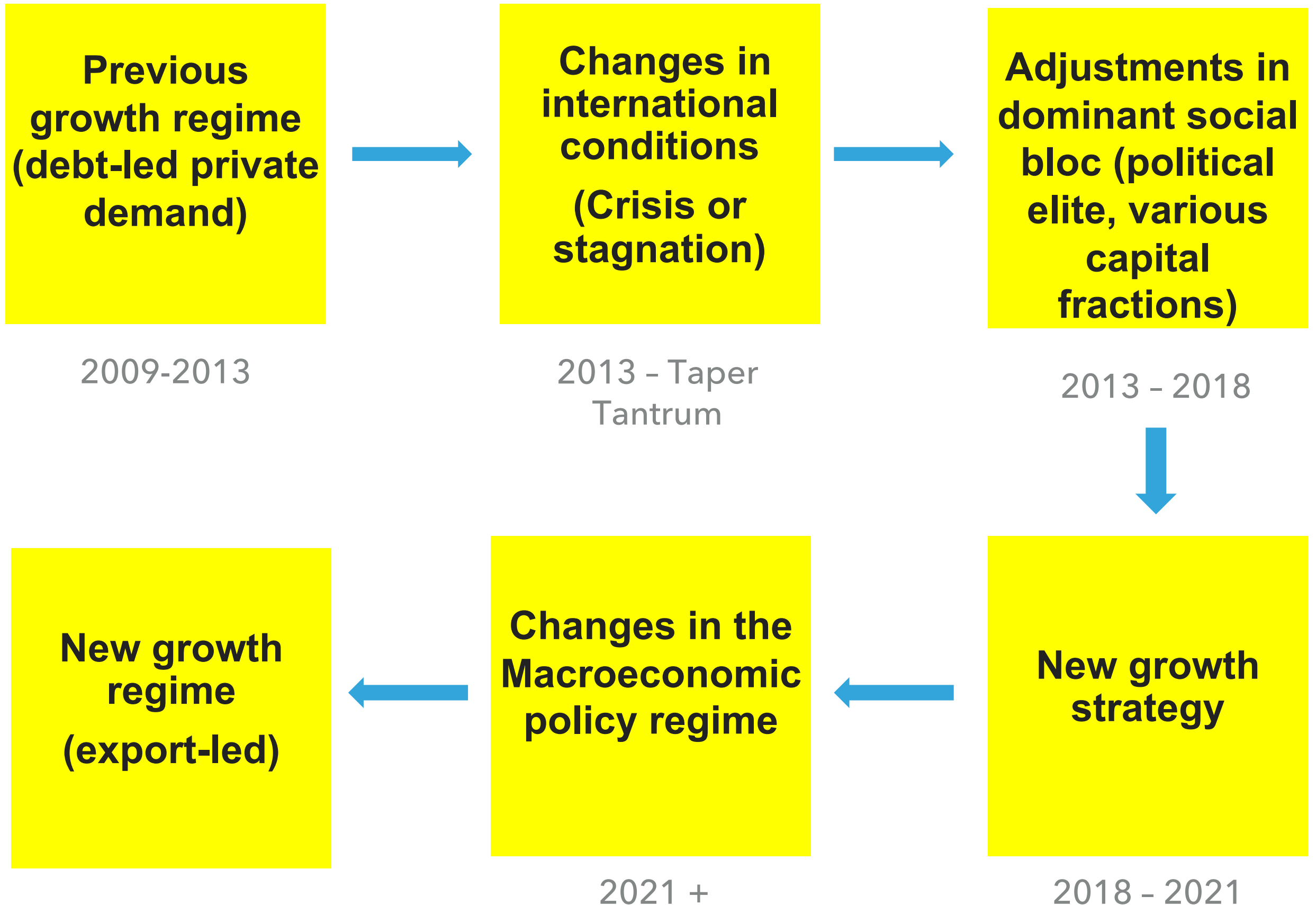
POLITICAL ECONOMY OF GROWTH REGIMES IN TURKEY

- ▶ 2001 IMF programme and crisis of neoliberal market reforms → AKP came to power in 2002
- ▶ DSB then consisted of core goods producers, the political elite and the poor.
- ▶ Unifying goal of this DSB was the maintenance of a strong TL (Turkish Lira),
 - ▶ Relatively high GDP growth rates and capital inflows
 - ▶ Increased social assistance programs
 - ▶ Decrease in trade union density and stagnant real wages
 - ▶ Over-valued TL → cheap imports but “premature deindustrialization” (Rodrik, 2015)

POLITICAL ECONOMY OF GROWTH REGIMES IN TURKEY

- ▶ While Turkey's domestic demand-led regime continued, it was interrupted by consecutive bottlenecks due to the anemic capital inflows particularly after 2013 (Orhangazi and Yeldan, 2021).
- ▶ Slowing growth rates undermined the previous dominant social bloc,
- ▶ The increasing weight of peripheral capitalists, who concentrated in low-tech and labor-intensive sectors, in the dominant social bloc.
- ▶ High negative rates → depreciation of national currency → collapse of real wages in FX terms + collapse of import → export boom → increasing net export contribution.

TURKEY



POLAND

**Previous
growth regime
(domestic
demand-led)**

2002-2008



**Changes in
international
conditions
(Crisis or
stagnation)**

2008-2010



**New growth
regime
(export-led)**

2010 - 2015



**Changes in the
Macroeconomic
policy regime**



**New growth
strategy**



**Adjustments in
dominant social
bloc (political
elite, various
capital
fractions)**

2015+

CONCLUSION

- ▶ Aim contribute on growth regimes literature on two grounds:
 - ▶ Theoretically: Bringing demand and growth regimes (PKM) into CPE and including growth strategies
 - ▶ Empirically:
 - Poland: change in the DSB and its growth strategy consolidates the prevailing growth regime
 - Turkey: change in the DSB with a new strategy that aims at establishing a new growth regime
- ▶ To do: more work on macroeconomic policies and elaborate on the social bloc analysis and their strategies

THANK YOU!

- ▶ For more details:
 - ▶ Ümit Akcay and Benjamin Jungmann (2022) "Political Economy of Growth Regimes in Poland and Turkey", *IPE Berlin Working Paper Series*, No 190/2022: https://www.ipe-berlin.org/fileadmin/institut-ipe/Dokumente/Working_Papers/ipe_working_paper_190.pdf



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GROWTH STRATEGY VS MACROECONOMIC POLICY REGIMES

Growth Strategies	Macroeconomic Policy Regimes
Future-oriented	Ex-post
Dynamic	Static
Why and how question	What question
Goal-oriented	Not necessarily
Investigate main reasons for stability and changes	Investigate patterns
Actor-based analysis: Includes diversified/contradictory class projects	Does not include.
Causal explanation	Descriptive analysis
Complement each other	

	Core goods producers	Peripheral goods producers
Sectors	automotive and durable goods, chemical industry, oil refinery	textile, garment, clothing and apparel industry, food, furniture and wood, construction
Productivity level	higher productivity level	lower productivity level
Production structure	Capital-intensive	Labor-intensive
Size of the firms	Large companies unagonized under an umbrella holding	Small and medium sized companies
Workers' skill degree	skilled-workers	Unskilled labor
Trade unions	High union density	Very low union density
Wage arrangements	Higher than minimum wage	Minimum wage
Use of imported goods	Import dependent	Lower level of import dependency (varying depends on the sectors)
International financial markets	Access to financial international markets (dollar or euro loans)	No access to international markets (only local currency loans)
Competitiveness	Non-price competitiveness	Price competitiveness
Targeted market	Both domestic and export	Both domestic and export
Monetary policy priorities	Price stability	Competitive exchange rate
Interest rate policy	Higher interest rates	Lower interest rates
Growth strategy	Industry 4.0, green transformation → export-led based on non-price competitiveness (high road)	Developmentalism, comprehensive incentive schemes, selective credit allocation → export-led based on price competitiveness (low road)
State economic policies	Independent central bank, importance of technocratic bodies, rule-based management, fiscal consolidation	Industrial policy, discretion-based policies, central bank independence is not necessarily important

POLAND'S ATTEMPT TO FORM A "NATIONAL CAPITALISM"

- ▶ Responsible Development Plan (2016)
 - ▶ "the past growth model was unsustainable" (p. 6).
 - ▶ "key sectors of the economy such as banking and manufacturing industry became controlled by foreign capital" (p. 6).
 - ▶ "The dependent economic model also distorts the justice in income distribution"
 - ▶ One of the main problems of the economy is the lack of domestic capital → "2/3 of foreign trade, 50% of industrial output and 65% of banking sector are under the control of foreign capital" (p. 12).
- ▶ The Plan determined the target of "re-industrialization" as the first priority in order to leave this model and announced that this target will be realized with domestic capital, not foreign capital.
- ▶ The removal of privatisation as a systemic goal and the state's investment in the economy by pursuing long-term goals can be seen as important parts of this trend.

TURKEY'S "PSEUDO-DEVELOPMENTALISM"

- ▶ Export-led growth strategy after 2013, more pronounced after 2018
- ▶ Central bank → Current account surplus targeting without capital controls
 - ▶ High negative rates → depreciation of national currency → collapse of real wages in FX terms + collapse of import → export boom → increasing net export contribution
- ▶ Industrial upgrading through monetary policy
- ▶ "Costly" import substitution strategy → soaring inflation + dollarization
- ▶ "Low interest rates → increasing production → high employment → increasing export → low import → low foreign debt"

RESEARCH STRATEGY

Why Poland and Turkey?

- ▶ Recent similar political economy tendencies:
 - ▶ increasingly non-democratic political paths,
 - ▶ distancing from orthodox neoliberal policies in macroeconomics in both countries.
 - ▶ Export-led orientation

How to compare?

- ▶ To analyze both macroeconomic regimes and their underlying social blocs.

	Poland	Turkey
Growth Regime	▶ Shifted towards a Weakly export-led demand and growth regime	▶ Shifted towards a Weakly export-led demand and growth regime
Dominant Social Bloc	▶ A change in dominant social bloc	▶ A change in dominant social bloc

DEMAND AND GROWTH REGIMES

- ▶ Since Baccaro and Pontusson (2016), CPE scholars increasingly study capitalist diversity from the growth regime/model perspective.
- ▶ This perspective stresses: the importance of demand dynamics, the instability of growth regimes and the international interactions between national growth regimes.
- ▶ Further adjacent concepts:
- ▶ **Growth drivers:** Factors that are assumed to induce change in aggregate demand components, e.g. house prices, competitiveness measures, commodity prices (Kohler and Stockhammer, 2021; Jungmann, 2021).
- ▶ **Macroeconomic policy regimes:** set of monetary, fiscal and wage/income policies + coordination and interaction of these policies against the institutional background + degree of openness and the exchange rate regime (Hein and Martschin, 2021).

SOCIAL BLOCS AND GROWTH STRATEGIES

- ▶ Growth regimes require a socio-political underpinning, i.e. key actors (e.g. political parties, producer groups and trade unions) supporting a certain growth regime.
- ▶ Concept of a **dominant social bloc (DSB)** is employed to analyze the coalition of key actors.
- ▶ The DSB is defined as “the set of social groups whose most significant expectations are sufficiently satisfied by the institutional structure and the policies implemented for them to support this structure and these policies” (Amable, 2018, p. 240) → The DSB shapes the institutional configuration and enacts policies to pursue its growth strategy.
- ▶ The DSB may be a cross-class and cross-sectoral alliance that can change over time allowing for a dynamic understanding of the state and its institutions.

SOCIAL BLOCS AND GROWTH STRATEGIES

- ▶ A **growth strategy** is an economic policy project by the DSB encompassing certain economic-related goals that are tried to achieve via economic policies and institutional change. Growth strategies are often articulated in development plans (e.g. “Made in China 2025”, “Responsible Development Plan” in Poland or the Turkish economic model, more generally, the establishment of “national capitalism”).
- ▶ The concept of a growth strategy in addition to that of a growth regime and a macroeconomic policy regime is important because the latter two describe ex-post empirical manifestations that do not necessarily reveal the DSB’s intention.
- ▶ But growth strategies may explain changes in the macroeconomic policy regime that led to changes in the growth regime.
- ▶ Capacity of the dominant social bloc to realize its growth strategy may be constrained due to its embedment in supranational structures or due to the economy’s subordinate integration into the global economy.

GROWTH REGIMES IN POLAND AND TURKEY

- ▶ Poland has been identified as a **domestic demand-led regime** in the years before the Global Financial Crisis (2000s-2008) and as **weakly export-led** in the years thereafter (Dodig et al., 2016; Hein et al., 2021).
- ▶ Turkey has been identified as **domestic demand-led** before the Global Financial Crisis and as a **debt-led private demand (boom) regime** thereafter (Dodig et al., 2016; Akcay et al., 2021).
- ▶ Caveat of previous studies within the PKM taxonomy: Emerging capitalist economies (ECEs) were mostly studied with the Global Financial Crisis as a potential breaking point for their growth regimes → this paper studies the growth regimes of Poland and Turkey with annual data.
- ▶ While our analysis confirms the regime shifts observed in Poland, a more differentiated assessment of the Turkish regime is necessary:
After the Global Financial Crisis, Turkey pursued a debt-led private demand (boom) regime. After the 2013 taper tantrum Turkey shows tendencies of a weakly export-led regime at low and unstable growth rates.