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CASE – Center for Social and Economic Research

Overview: In the last issue of showCASE in 2017, CASE's President Christopher Hartwell comments on Polish Finance Minister Mateusz Morawiecki's ascent to Prime Minister, discussing what his unorthodox reading of economic theory will bring to the country. We also introduce the reader to the European Commission's new publication co-authored by CASE, a *Literature Review on Taxation, Entrepreneurship and Collaborative Economy*.

A New Prime Minister for Poland: Bringing PiS and Vinegar to Europe

By: Christopher Hartwell, President of CASE

Photo: Flickr, Kancelaria Premiera

In a move widely seen as a public relations ploy to improve Poland's flagging relationship with Brussels, on Tuesday, December 12th, the "Law and Justice" government (PiS in Polish) formally replaced Prime Minister Beata Szydło via a vote of confidence with Deputy Prime Minister and Minister of Finance Mateusz Morawiecki. Purportedly the moderate face of the PiS government, Morawiecki has vowed to continue the conservative social policies of his predecessor. Indeed, PiS has shown no inclination that it will back away from its poor economic approach or its wide-sweeping institutional changes.

Morawiecki is no stranger to the levers of power; a banker by trade and historian by education (and notably not an economist), Morawiecki's skill as a tactician helped him to rise as number two in Szydło's cabinet, holding several portfolios since 2015. As Finance Minister, Morawiecki's term was somewhat of a disaster in terms of his administration and his vision, but he has been given a pass due to the economic numbers that have even surprised PiS. Tax revenues, especially connected with the value-added tax (VAT), have risen, and growth has been revised upward (and unemployment has fallen).

However, it is questionable whether any of this is attributable to PiS's economic policies. Incipient growth in the Eurozone has helped Polish manufacturer,s while revisions to GDP have come about almost entirely due to consumption (powering the Polish economy for most of 2017) and unemployment declines are more demographic in nature. This has been an explicit policy of PiS, with its "500+" plan doling out tax zloty to families with more than one child but more likely going straight to consumption. Moreover, tax revenues have been increased via several aggressive and onerous strategies. The biggest success has been the "single-control file" (ironically designed by the previous Civic Platform government); while not necessarily working correctly in the back office, projects an image of tax enforcement as omnipresent. The perception of increased enforcement has dampened evasion, but the imposition of this format has created real costs for businesses. Additional putting extra burdens on businesses have had less success in raising revenue; for example, changes in Polish tax laws require businesses to collect tax unless employees or consultants prove that they do not need to pay tax (i.e. they are resident in another country). In this way, the Ministry has made businesses guilty until proven innocent.

Similarly, Morawiecki's grand plans for public investment have been made easier by the increase in revenues, but the "plan" that is attributed to him is nothing more than a laundry list of wishes. To be fair, Morawiecki was given a task that is impossible, mainly fashioning an economic ideology that comports with PiS's social beliefs. How could spending taxpayer money on transfers from wealthy urbanites to poorer rural voters so that the rural voters can have more children be justified in economic terms? How could a policy of national champions, a disaster in countries further east and intimately connected with rampant corruption, be instead sold to the populace as necessary for growth? How could removing workers from an already-shrinking workforce via a lower pension age be squared with Poland's economic needs for the future? In each of these instances, social desires of the PiS cadre predominated over economic ones, leaving Morawiecki in an intellectually untenable position.

Regardless of his past performance, commentators have been twisting themselves into knots trying to understand Morawiecki's appointment as a moderating of PiS's belligerent tone. However, the continued presence of diminutive powerbroker Jarosław Kaczynski and recent moves by the government show that this is unlikely to be the case. Judicial reforms, including bringing the judiciary under the control of the executive branch, have gone ahead as planned, drawing protestors onto the streets but with little effect in stopping the changes. Additionally, Poland has taken a page from the Russian playbook and fined TVN (a rare independent broadcaster) 1.5 million złoty this past week for its coverage of anti-government protests. While there should be little surprise that state-owned media outlets would be used to favor the state, the attempt to stifle dissent from independent broadcasters does very little for advancing Polish greatness. Such a blatant move merely feeds into the narrative of economic uncertainty, making it more likely that private investment will continue to stagnate.

Poland's economic future at the moment looks surprisingly good, but the foundation for future growth is being dismantled brick by brick and private investment is yet to recover from its collapse in 2016. There is little chance of "moderation" under the new PM, as Morawiecki not only oversaw these economic policies but attempted to justify them under an intellectually incoherent ideology. Whether in PiS's social or economic approach, the current path will likely be adhered to; indeed, it is much more likely that Morawiecki's "socialism (lite) with a human face" will continue to find favor among PiS voters and its ruling clique. The economic effects may take time to appear, but without fresh private investment, Polish voters may soon find that vinegar is not enough to sustain consumption indefinitely.

How to Tax Collaboration?

By: Krzysztof Głowacki, CASE Economist

Are Uber drivers employees or self-employed? How should you report your Airbnb income? The new report by the European Commission, co-authored by CASE experts, tackles these and other issues related to the taxation of collaborative economy.

Earlier this month, the European Commission published the report *Literature Review on Taxation, Entrepreneurship and Collaborative Economy*, which was co-authored by CASE experts Izabela Styczyńska, Grzegorz Poniatowski, Krzysztof Głowacki, Iakov Frizis, and Karolina Beaumont. The report investigates the interplay between the tax system and entrepreneurship in the European Union, with a particular focus on the challenges posed by the emergent collaborative economy.

We define the collaborative economy in the report as the conjunction of three elements: 1) a digital platform that connects supply and demand; 2) access to resources rather than ownership of resources; and 3) a reputational system that alleviates information asymmetry between the parties and creates trust. Examples of such collaborative platforms include Airbnb, BlaBlaCar, TaskRabbit, and Uber, and this sector has been developing rapidly, with the value of collaborative transactions up by 180% between 2013 and 2015 in Europe (from EUR 10 billion to 28 billion). At the same time, due to its relatively fresh nature, this economy comes with a range of regulatory challenges with which Europe's legal systems (including taxation) do not always have a ready solution.

One of these challenges is whether service providers in collaborative economy are to be considered employees or self-employed, a distinction with important implications for both tax law and labor law. Uber, an important stakeholder in this debate, takes the view that its drivers are independent contractors, but British courts have issued verdicts to the contrary. Against this backdrop, it can be argued that the employment vs. self-employment divide loses relevance in the context of the collaborative economy, and new, more flexible categories need to be developed. The Belgian government took a step in that direction in 2016, having introduced a special 10% withholding tax for collaborative economy income up to EUR 5,000, along with VAT and social security exemptions.

The tax compliance of service providers may be an issue in itself, a challenge evidenced by the popular Airbnb rental platform. In principle, estate owners are obliged to self-report Airbnb income on their annual returns. In reality, some owners lack adequate knowledge of their tax obligations, others are concerned about exposing themselves for violation of short-rental regulations; still others may simply choose to evade taxation. The owners are usually also unaware of the occupancy taxes imposed by government that their guest should pay for short-term stays.

In our report, we argue that collaborative economy platforms can play a constructive role in maximizing compliance and minimizing overall administrative costs. The platforms can provide advice to its users, report their income to tax authorities, or withhold and remit taxes to authorities. In fact, such solutions are not only considered, but in some places also implemented. In France, tax authorities in certain regions have entered into an agreement with Airbnb to collect occupancy taxes. In Estonia, e-Estonia, Europe's first full digital tax administration system, is being integrated with functionalities to address the needs of collaborative economy, such as the electronic self-reporting of income for Uber drivers.

The collaborative economy, enabled by modern technology and emerging from contemporary social trends, provides a fresh stimulus to economic growth and to the labor market, but at the same creates challenges to the ossified regulatory structures of the European Union. In our report, we discuss theoretical and practical ideas of how to address these challenges, walking the fine line between regulatory oversight and innovation.

[Read the report >>>]

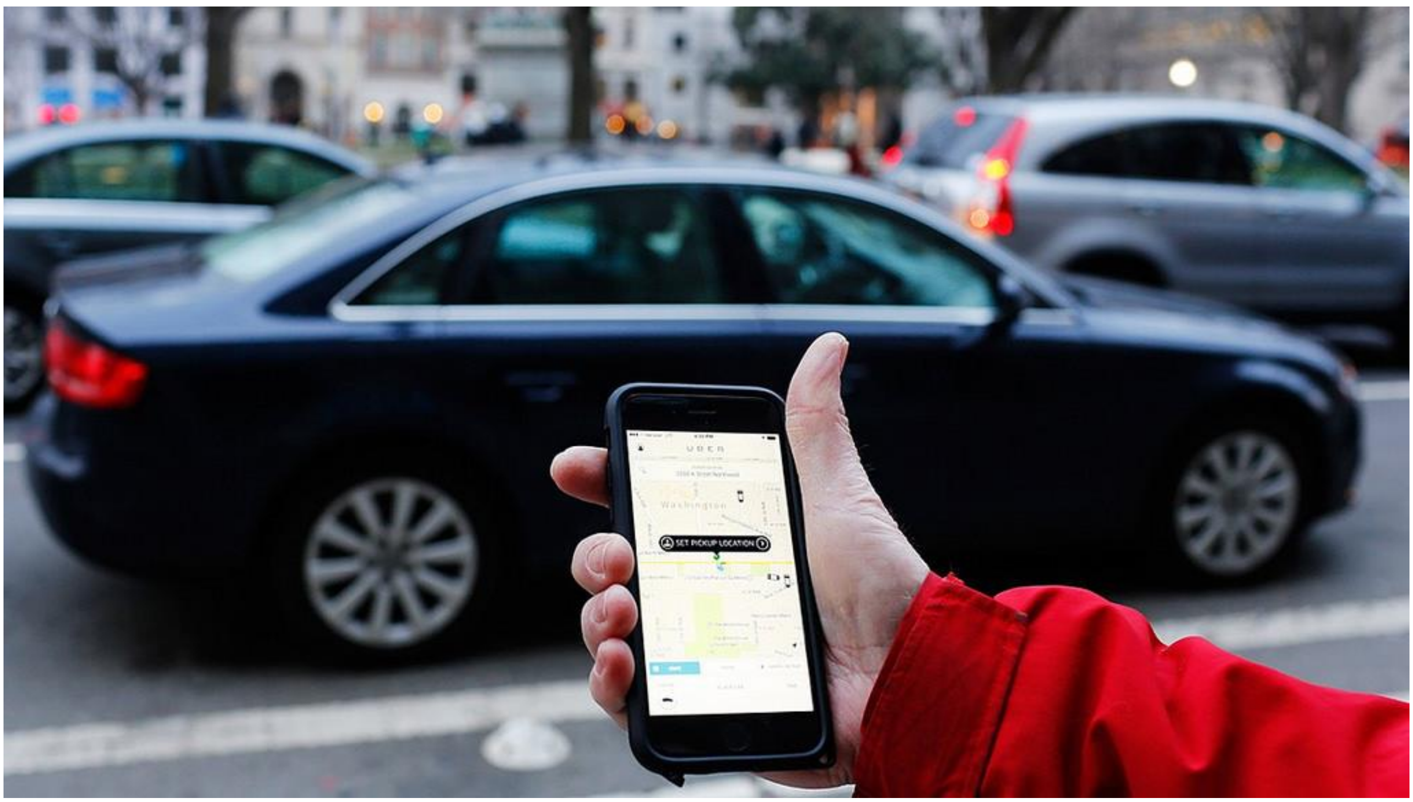


Photo: Flickr, Mark Warner, CC BY 2.0

This week: Prices of goods and services in November increased by 2.5% y/y. Inflation was boosted by rapidly growing prices of food, which saw a remarkable increase of 1.1% m/m and 6.5% y/y. Prices of energy carriers and fuels have also been on the rise, and this trend is forecasted to continue during the upcoming months.

GDP (Q3 2017)

5.2% y/y (est.)

Up from 4.2% in Q2

Inflation (Nov 2017)

2.5% y/y

Up from 2.1% in Oct

Unemployment (Oct 2017)

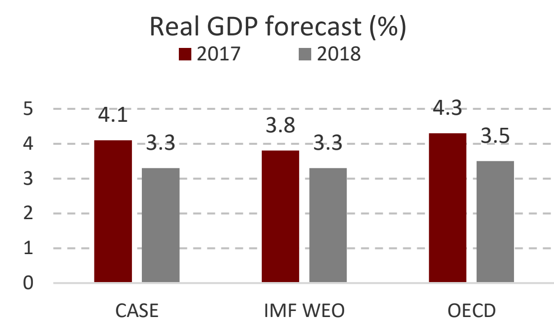
6.6%

Down from 6.8% in Sep

NBP Base rate

1.5%

From 2% Mar 2015



This week: The Federal Statistics Service confirmed previous forecasts, according to which GDP in Q3 reached 1.8% y/y, a slowdown compared to the previous quarter (2.5%). In the first three quarters of 2017, the Russian economy grew by a cumulative 1.6%. The government expects a total growth figure for 2017 to be in the range of 2-2.1%, while IMF and OECD expect it to be closer to 1.8 or 1.9%.

GDP (Q3 2017)

1.8% y/y

Down from 2.5% in Q2

Inflation (Nov 2017)

2.5% y/y

Down from 2.7% in Oct

Unemployment (Oct 2017)

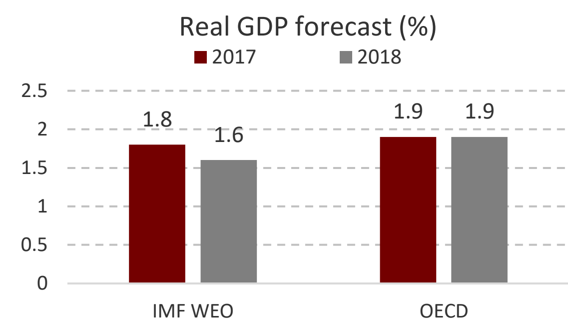
5.1%

Up from 5.0% in Sep 2017

CBR Base rate

7.75 %

From 8.25% in Nov 2017



This week: Following the bankruptcy of Air Berlin, the European Commission voiced concerns regarding the planned takeover of the airline's low-cost subsidiary Niki by Lufthansa. The Commission fears that the transaction would leave Lufthansa with too much market power. The bankruptcy of Niki can result in a loss of around 1,000 jobs, although other flight providers such as Austrian Airlines and Eurowings have already started to recruit Niki's pilots and flight attendants.

GDP (Q3 2017)

2.8% y/y

Up from 2.3% in Q2

Inflation (Nov 2017)

1.8% y/y (est.)

Up from 1.5% in Oct

Unemployment (Oct 2017)

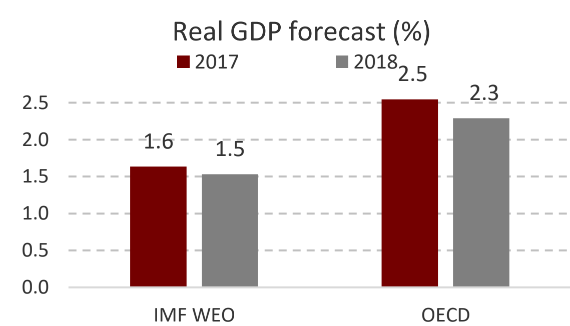
3.7%

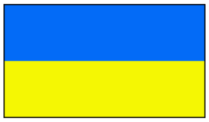
Up from 3.5% in Sep

ECB Deposit rate

-0.4%

From -0.3% Dec 2015





This week: Ukraine signed the "Joint Declaration on Trade and Women's Economic Empowerment" at the WTO conference in Buenos Aires. Ukraine pledged to make the country's trade policy more responsive to gender issues. The steps required to implement the declaration include the exchange of experience and information through the WTO with a view to encouraging women's participation in economic relations.

GDP (Q3 2017)

2.1% y/y

Down from 2.3% in Q2

Inflation (Nov 2017)

13.6% y/y

Down from 14.6% in Oct

Unemployment (Q2 2017)

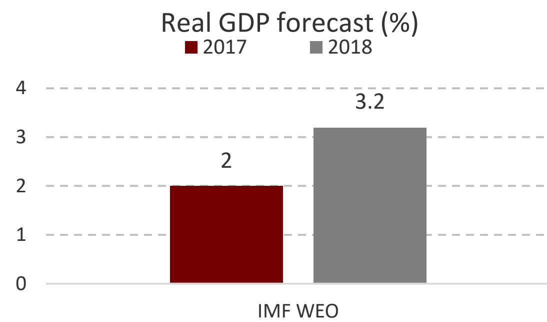
9.1%

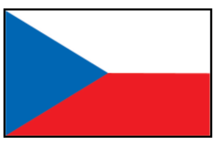
Down from 10.5% in Q1 2017

NBU Base rate

14.5%

From 13.5% in Oct 2017





This week: The green economy in Czech Republic is set to experience an investment boost, as Inven Capital, a fund belonging to Czech Energy Company (CEZ), will receive 50 million EUR from the European Investment Bank for investments into small and medium businesses dealing with clean energy and intelligent technologies. CEZ itself will commit additional EUR 50 million, driving the total investment to EUR 100 million.

GDP (Q3 2017)

5.0% y/y

Up from 4.7% in Q2 2017

Inflation (Nov 2017)

2.6% y/y

Down from 2.9% in October

Unemployment (Q3 2017)

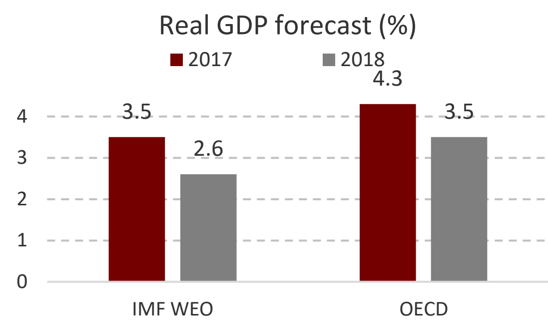
2.8% (est.)

Down from 3.0% in Q2

CNB Base rate

0.50%

From 0.25% (3rd November 2017)



This Week: The National Bank of Hungary is widely expected to keep the current base interest rate at 0.9% during the meeting scheduled for December 19. The Bank's dovish stance was also reflected in its recent announcement that it would keep borrowing costs low, including through unconventional monetary policy tools. In the meantime, the inflation fluctuated between 2.2% and 2.5% y/y in the last two months, against the Bank's target of 3% with a two-way 1 percentage point bound.

GDP (Q3 2017)

3.9% y/y (est.)

Up from 3.3% in Q2

Inflation (Nov 2017)

2.5% y/y

Up from 2.2% in October

Unemployment (Q3 2017)

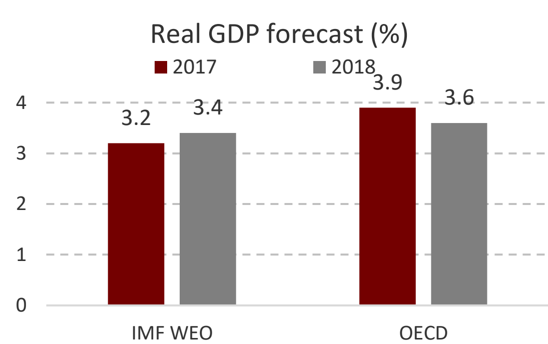
4.1%

Down from 4.3% in Q2

MNB Base rate

0.9%

From 1.05% May 2016



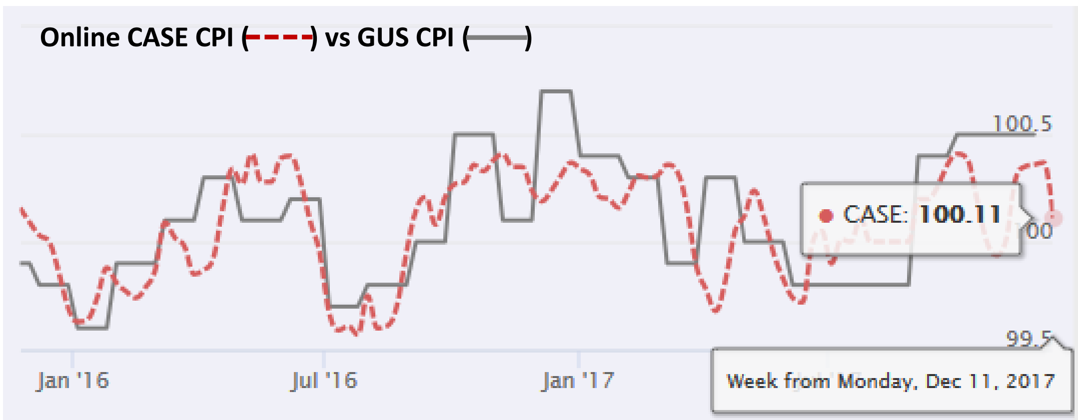
Other CASE products

Center for Social and Economic Research

The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

Our weekly online CASE CPI



Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2017	4.1	4.6	3.0	4.7	1.9
2018	3.3	3.3	3.1	3.7	2.1
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2017	5.1	213.4	213.6	-0.2	-2.7
2018	3.5	221.9	223.8	-1.9	-3.9

For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi To **subscribe** to our weekly showCASE newsletter, please click here. To see **previous issues** of showCASE, please visit: http://case-research.eu/en/showcase

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