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RAHN: Poland versus Greece

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Which was the only country in the 27-nation European Union to register economic growth without going through a recession last year? The surprising answer is Poland.

Over the past couple of weeks, Greece has been grabbing the headlines as a poster child for bad fiscal management. The Greek tragedy is threatening to undo the Eurozone and cause a pan-European financial crisis. There is no mystery as to why Greece is in the financial soup - its politicians have continued to spend far more than the government receives in taxes. The more interesting question is: What did Poland do right - and will Poland be better off or worse off if it joins the Eurozone?

Poland has been moving more toward economic freedom than Greece has and, as a result, is slowly catching up to Greece and the average of the other EU states in terms of per-capita income. Poland's normally diffident, free-market prime minister, Donald Tusk, said last month: "Who would have thought we would see the day when the Polish economy is talked about with greater respect than the German economy?" In fact, the Poles have a long way to go to reach Germany's level of prosperity, but they clearly are learning from the mistakes of others, most notably keeping the growth in government spending under control.

The authors of the Index of Economic Freedom (produced by the Heritage Foundation and the Wall Street Journal) note that Poland "has continued to enhance its entrepreneurial environment, achieving one of the 15 highest score improvements in the 2010 Index." Despite Poland's having had growth averaging close to 5 percent for the past five years, improving its legal structure and reducing corruption, much more needs to be done. Poland, unlike Greece, still suffers from the legacy of four decades of communist rule.

Specifically, Poland still needs to: sweep away many of the impediments that make it costly and expensive to start a new business, reduce its high marginal tax rates, further reduce government spending as a percentage of gross domestic product, free up both its domestic and foreign financial markets, do much more to protect property rights, and free up its labor markets.

Despite its shortcomings, Poland is headed in the right direction, but the same cannot be said for Greece. Economic reforms in terms of reducing corruption, tax rates and regulations and proceeding with privatization all have stagnated. Much more needs to be done to free up financial markets, abolish restrictive labor markets and, most notably, control the growth in government spending.

The Europeans, and particularly the Euro-bloc countries, which include Greece but not Poland, face an acute dilemma. (Note: Those countries that have become part of the Eurozone did so by agreeing to abide by strict limitations on deficit spending and debt. Thus, the Greeks and a number of other Eurozone countries are in clear violation of their treaty obligations.) If the more responsible countries, such as Germany, bail out Greece, does that not establish a precedent for the bailout of the other irresponsible countries, such as Belgium, Portugal, Spain and Italy? Clearly, the German, Dutch, French and other taxpayers could not afford and probably would not be willing to bail out all of those countries. The Germans, at the moment, seem to be trying to force the Greeks, as a condition of a bailout, into draconian spending cuts - which the Greek labor unions and politicians may not be able to swallow but which would serve as a warning to the other irresponsible Euro countries to get their financial houses in order.

To a lesser extent, the same drama is being played out in the United States. Fiscally irresponsible states like California want a federal bailout, but its cost would fall on the taxpayers of all the states, including the fiscally responsible taxpayers of Texas. Why should Texans incur more debt and higher taxes because of spendthrift Californians? The governments of California and Greece cannot inflate their way out of their problems because they do not print their own money. Ironically, if Poland had been as fiscally irresponsible as Greece, it could inflate its way out of the spending problem because it still prints its own money. (It will no longer be able to do so if it enters the Eurozone.)

The Poles are on track to become part of the Eurozone. (They have been members of the European Union and NATO for a number of years.) If the Eurozone countries start the precedent of bailouts for their irresponsible members - thus saddling the taxpayers in the responsible countries with the debts of the wastrels - would the responsible Poles want or choose to become part of such a club?

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