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## Poland's Determination for Reform May Be a Model for the Rest of Europe

- By IRWIN STELZER



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Bronislaw Komorowski is committed to economic reform.

America was a big loser in the recent Polish presidential election. The Law and Justice Party's pro-American Jaroslaw Kaczynski lost his presidential bid to more Europe-oriented Bronislaw Komorowski's Civic Platform.

Mr. Komorowski knows that Barack Obama sacrificed the missile defense system he had promised Poland in pursuit his goal of a "reset" to U.S. relations with Russia. And that Mr. Obama failed to visit NATO-ally Poland on his trips to Europe.

Which explains the desire of Poland's new president to improve his nation's ties to Europe rather than maintain the rigidly Atlanticist policy of his predecessor, and to improve relations with his Russian neighbor. Despite the made-in-Greece upset to the euro, Mr. Komorowski holds to his plan to trade in Poland's zloty for the euro, although not immediately.

America's president has invited his new Polish counterpart to him to visit the White House, to discuss Mr. Komorowski's plan to withdraw Poland's troops, the seventh-largest contingent, from Afghanistan. Both men will welcome the traditional photo-op such visits produce. Especially Mr. Obama. After all, congressional elections are looming, and a significant number of Polish voters are concentrated in several key congressional districts, not least among them several in Mr. Obama's home town of Chicago, which has the largest Polish population outside of Warsaw.

Mr. Komorowski, like Polish Prime Minister Donald Tusk, is committed to economic reform both within Poland and in the EU, the presidency of which Poland will occupy next July. But he does face two hard facts: parliamentary elections are coming up next year, and Mr. Kaczynski made a surprisingly strong showing, garnering 47% of the vote. The loser campaigned on a platform of raising benefits for the elderly and increasing the minimum wage and took 59% of the rural vote. No deficit hawk, he.

Many of the reforms Mr. Komorowski has in mind have earlier been passed by the legislature, only to be vetoed by Mr. Kaczynski's twin brother, Lech, president until his death in an airplane crash on April 10. The reform list is basically no different from the one being drawn up across Europe: curtail the fiscal deficit (in Poland's case, running at around 7% of GDP); reform labor markets; fill the black hole in the state pension system; advance the retirement age; reform health care; proceed with privatizations; reduce farm supports.

We will have to wait until the parliamentary elections are completed in October to find out whether Mr. Komorowski has the votes to push through his reforms and, if so, whether he is willing to spend a not insignificant amount of political capital to do so. In any event, he cannot ignore the nation's constitution, which requires spending cuts if debt hits 60% of GDP. It is now 55% and rising. Or the warning of Marek Belka, governor of Poland's central bank. Mr. Belka told Bloomberg Businessweek that failure to attack the deficit might make it difficult for Poland to roll over some \$62 billion in debt coming due in 2011 and 2012, and lead the markets to see it as "a bad performer."

At the moment, "The economy is going through a soft patch," observes the Center for Social and Economic Research in Warsaw. This after Poland, with some backing from the International Monetary Fund and a generous influx of European Union cohesion funds since 2004, avoided the recession that racked most of Europe last year. It grew at an annual rate of 1.7%, the lowest rate in about a decade, which saw growth at around 5% annually according to CIA reports. Most investors expect that soft patch to be nothing more than that. Magdalena Polan, senior European economist at Goldman Sachs, notes that "easy financial

conditions, strong domestic and external demand strengthened by the increased competitiveness that followed [the zloty's] depreciation and a recovery in the rest of Europe have been growth-supportive." She is expecting the Polish economy to grow 3.5% this year — in line with the Organization for Economic Cooperation and Development's forecast for the country — and 4.6% in 2011. The latter figure, however, might prove to be a bump due to scheduled EU-funded infrastructure spending, says Mr. Belka.

The Center for Social and Economic Research is also optimistic. Its economists are predicting that unemployment will fall from about 12% to the 10% range by the end of next year, and real wages will rise at annual rate of 2.5% this year and even faster in 2011. If promising shale-gas projects prove out, growth might be even more rapid.

It has been Poland's fate through the centuries to matter more than a tiny country should. It still matters, even though its over-\$500-billion GDP is only a bit more than one-third that of California's. Now, it might matter in a more pleasant way than in the past. A successfully reformed Polish economy might serve as an encouraging model for other EU countries, especially since the reformers will have overcome important entrenched reactionary forces, not least among them the nation's farmers and its pensioners.

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