Is a Greek Collapse Possible in Poland?

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The aim of this article is to compare the economies of Greece and Poland considering their paths of development over the last twenty years. The authors have pointed out many differences between them although they have found some similarities as well. Greece was greatly touched by the crisis. Poland for the last two years has been given as an example of a country which has survived the crisis. The question is: Have we just concealed our economic problems and so the crisis is imminent? The authors also attempt to give some useful solutions to be implemented in order to avoid Greek's fate.

INTRODUCTION

European Union member countries are struggling to maintain their economic prowess while bankruptcy of new states is fast approaching. Prior to Poland accession to the EU, the country has been often compared to Greece as a state for which there were high hopes that were unsure to realize upon entry to a European community. However, as Poland became an EU state its path and that of Greece have driven apart. In this article our aim is to present differences between Poland and Greece – countries which at first might have appeared very similar in economic terms, but in fact, their economies followed different development pathways. Nevertheless, after the crisis has struck Greece, it appears that Polish economies shows similar sign of weakness and if not appropriately dealt with might, in the end, follow in the footsteps of Greece.

The article begins with an overview of the Polish economy just prior to and following its accession to the European Union community. Then, we present an analysis of the Greek economy at the similar time. Next, we compare and contrast the two European countries in terms of their economic development. Finally, conclusion concludes our discussion.

OVERVIEW OF THE POLISH ECONOMY OVER 2000-2009

According to Eurostat data (Eurostat, Real GDP growth rate, table no. [tsieb020]) Polish real GDP over the period 2000-2009 has shown a positive annual figures with a greatest increase noted in years 2006 and 2007 with 6.2 and 6.8% respectively. In terms of purchasing power standard Poland has increased its monetary power from 48 in 2000 to 56 in 2008 (Eurostat, GDP per capita in PPS, table no. [tsieb010]). At current market prices per inhabitant, there has been an increase from 9200 in 2000 to 14100 in 2008 that is a compound growth of 53% (Eurostat, GDP at market prices, table no. [tec00001]).

During the period 2000 to 2009, gross value added of business activities and financial services increased by almost 12% which is quite high amongst EU member states (Eurostat, Gross value added- Business activities and financial services, table no.[tec00007]). While in the construction sector a decrease in gross value added in comparison to all branches of the economy was noted over the 1999-2006, since then until 2009 it remained above 7% (Eurostat, Gross value added-Construction, table no. [tec00005]) whereas gross value added for trade, transport and communication have shown an opposite pattern (Eurostat, Gross value added-Trade, transport and communication, table no. [tec00006]). During the 2000-2009 consumption expenditure of households and non-profit institutions serving households in millions of Euro, grew from 119099.6 to 190524.5 that is an increase of approximately 60% (Eurostat, Final consumption expenditure of households and non-profit institutions serving households, table no. [tec00009]). In 2009 Poland was the only country in Europe with a positive growth rate, a so-called "green island" on a map of red Europe. According to the publication of the National Bank of Poland (National Bank of Poland, December 2009), a low (1.7%) GDP increased in 2009 and was due to economic hardships at trade partner countries and unstable global economic environment.

Exports and imports both grew over the 2000-2008 period. In 2000 exports were over €50373 million and by 2008 they accounted for almost €144895 million (Eurostat, Goods and services, imports and exports, table no. [tec00110]). Similarly, imports grew from over €62300 million to over €159312 million, in the same period (Eurostat, Goods and services, imports and exports, table no. [tec00110]). This resulted in openness to trade increasing gradually.

The Polish economic transformation took place in a highly inflationary environment yet during the period under study the inflation has been tamed. In 2000 inflation amounted to as much as 7.3% - a highest number recorded in a recent 10 year history of economy in Poland. Since then it has declined for three consecutive years to a level as low as 0.4% in 2003. In 2004 it picked up again to 4.1% in order to decrease once more for two following years. In period 2007-2009, it remained quite stable at a level of approximately 3% (Figure 1).

One of the most notable effects of this systemic change to a market economy was the impact on disguised unemployment. As the transformation began, unemployment grew systematically. In our period of interest unemployment rate decline to one-digit figure in 2008 as low as 8% (Eurostat, Harmonised unemployment rate by gender – total, table no. [teilm020]). At the same time, worker productivity per person employed has increased from 55.2 in 2000 to 65.1 in 2009 that is an increase of almost 18% (Eurostat, Labour productivity per person employed, table no. [tsieb030]) although it is still quite low in comparison to European Union standards were workers productivity averages 100. The same is true for labor productivity per hour worked which for and EU-15 amounted to an index of 100 and Poland placed at only 44% of that in 2008 (Figure 2).

For the period in question, the budget deficit in Poland is a constant issue of defiance between the coalition governments and opposition. One side has favored a Keynesian style policy running enormous budget deficits in order to maintain high levels of spending to fuel economic growth while the other has been in favor of tighter control of the budget and keeping the spending in check. In the period 2001 to 2006 the budget deficit fluctuated in between €9000 and €11000 million, whereas in 2007 it noted a sudden fall to €5842 million. Due to economic crisis and great social pressures to maintain and even increase social benefits to workers, unemployed and retirees, the budget deficit exploded in 2008 to €13350 and €22120 in 2009 (Eurostat, General government deficit and surplus, table no. [teina200]). The general government deficit has followed a different pattern and in the period 2002-2008 has been maintained at an average level of 46% of GDP while in 2009 it increased to 51% of GDP (Eurostat, General government debt, table no. [tsieb090]). One of the reasons for that is that taxes on production and imports have been generally increasing from 2000 to 2008 and fell sharply by 13 percentage points (Eurostat, Taxes on production and imports, table no. [tec00020]) in 2009 as the Polish government desired to undertake initiatives that could have helped attract investors to Poland despite grim global economic outlook.

Finally, reference interest rate data quoted daily by the National Bank of Poland (National Bank of Poland) shows that since August of 2000 it has decreased steadily from a high of 19% to a low of 3.5% as of January 2010. Given the economic environment it is unlikely for the interest rates to be increased soon.

OVERVIEW OF THE GREEK ECONOMY OVER 2000-2009

Greece joined the European Union in 1981 but the positive economic impact of this event and ensuing economic growth appeared by the mid 90s which strengthened its road to euro in 2001. To the good result contributed mainly introduced macroeconomic policies (Vamvakidis Athanasios, 2003): fiscal consolidation and price stability (significantly reducing inflation) and structural reforms such as: financial, product and labor market liberalization. Additional favorable growth factor was, during this period, a general lowering of interest rates in the euro area.

As a result of economic reforms the Greek economy was transformed from agricultural and resource-based managed economy to one focused mainly on services. Already in 1997, services produced 64.4% of gross domestic product, while agriculture only 8.3% and industry 27.3%, according to 2007 data, this share increased to 76.3% (agriculture - 3,2 %, industry - 20.6%) (www.kb.neostrada.pl/dzien/gospodarka.htm).

These days, agriculture generates about 10% of total GDP. Arable land occupies 21% of the country, meadows and pastures - 24%, forests and thickets - 40%, the rest is mostly barren (www.kb.neostrada.pl/dzien/gospodarka.htm). Soils are mostly rocky and unsuitable for agriculture. Alluvial soils occur almost exclusively in the plains of Macedonia and Thrace and in Attica and on the Tesalskie Plains. In the agriculture of Greece, small farms predominate (65% have 1-5 ha and only 1% are above 50 ha). Only 9% of the population receives income solely from agriculture, but agricultural activity is an additional source of income for a total of about 15% of working people. Besides Portugal, in Greece this ratio is the highest among the "old" EU member countries. Approximately 30% of the land is irrigated (threefold increase over the past 50 years). The main crops are olives, grapes, citrus, cotton, wheat, tobacco, corn (one of the highest yields in the world), vegetables and rice in the north.

Fisheries are also significant as well as the catch of crustaceans and sponges, although in recent years they have lost its meaning due to extermination of marine fisheries. As a result it is now being conducted as fish farming in closed sea areas.

Mining industry is a small branch of the economy but it is very important for Greek exports. The main mineral wealth of Greece is the following: bauxite, iron ore, zinc and lead, chromium, manganese, nickel and marble. Rich deposits of limestone – the basic raw material for cement production – are available almost throughout the country. In northern Greece, deposits of gold and emeralds were also found.

The leading industries are processing manufacturing and construction. The processing industry is dominated by the food industry (olive oil, wine, tobacco and citrus) which is scattered throughout the country, textiles and clothing, steel aluminum and iron. Other industries include cement manufacturing and engineering, chemical and petrochemicals.

Since the 60s of the twentieth century tourism has been one of the main sectors of the economy due to a large number of ancient monuments and well-developed hotel and catering infrastructure as well as favorable climate conditions. Annually, Greece is visited by more than 10 million tourists, mainly from USA, Germany and Great Britain. Holiday tourism is concentrated along the coasts and islands (for which there are 60% of Greek hotels).

Tourism is supported by well-developed air transportation (there are 39 airports in Greece that meet international standards) and maritime transport that is based on the world's largest merchant fleet (20% of the world merchant fleet and 60% of all EU vessels belong to the Greek ship owners), although the number of vessels registered under the Greek flag is constantly decreasing. It is the outcome of a registration of ships under the flag of countries such as Panama or Liberia, in order to reduce operational costs. However, still registered under the Greek flag is now more than 2,000 vessels. The average age of vessels is very high and amounts to nearly 20 years. That is why shipping is at present undergoing enormous modernization. Every year, ferries, fast craft and catamarans carry 2 million passengers, 150,000 trucks and 140,000 cars.

Despite a significant progress in the last two decades, when the real GDP growth remained at a level of 3-5% (Figure 3) and, at the same time, in terms of purchasing power standard Greece has increased it from 84 in 2000 to 94 in 2009 Eurostat, GDP per capita in PPS, table no. [tsieb010]), Greek economy has remained at a considerable distance behind other countries in the euro area. After an economic boom in the 60's and 70's, the economy has showed weaker growth than most other European countries until the mid-90s. This slow growth have increased gap between Greece and other developed countries.

Unemployment remains high (although the government took actions aimed at reducing unemployment and increasing development of small and medium-sized enterprises), which can be observed on the basis of unemployment rate by gender, which in 2000 was 11.2% in 2008 and decreased steeply to a level of 7.7% and then increased in 2009 to 9.5% (Eurostat, Unemployment rate by gender, table no. [tsiem110]).

Inflation is one of the highest in the euro area (despite the fact that after many years of efforts, inflation has fallen from 17% in the period 1980-1991 to a level of 3-4% in the late 90s and remained at a similar level until the crisis) and the public debt is almost double that of other countries. The reforms helped to keep spending constant; however, declining revenues have led to an overly high level of budget deficit and the need for ever greater indebtedness (Figure 4), which creates higher lending needs (Figure 5).

Other indicators confirm this backwardness: the smallest expenditure among the EU countries on education, science, the last place in spending on information technology and telecommunications, the absence of the discoveries and inventions.

International competitiveness of Greece is also not developed enough. Among the reasons for this, among others, preferential treatment of state enterprises in comparison to the private sector, labor market rigidity, the structure of the social security system which leads to excessive growth of small businesses and lack of institutional and legislative transparency (Ministry of Finance, 26.10.2010, p. 4). Examples of preferential treatment for state-owned enterprises in comparison to the private sector could be seen in the manner they are financed. On commercial banks an order to allocate funds to cover the debt through the purchase of state debt was imposed. Funds obtained by selling Treasury securities are in turn spent on subsidizing unprofitable state companies operating in declining industries. An obligation of the banks to finance the national debt simultaneously reduced the supply of credit to the private sector, making private projects to be displaced by inefficient state activities. An important factor limiting the competitiveness of Greek economy and its modernization process was a too high level of labor market regulation.

World economic and financial crisis that began in 2008 in the United States did not pass Greece. In the first half of 2009, the Greek economy have not yet revealed the signs of collapse, as official statistics showed that Greece has not fallen into recession. But as it turned out, the Greek authorities were hiding the size of the crisis in the country. After the left-wing party has taken power in the autumn of 2009, the true condition of the Greek economy and finance came to light. At the end of frighteningly quickly growing budget deficit and public debt, credit rating agencies have lowered the assessment of the credibility of the country. The Greek financial system began to waver, even though the country was and still is a member of the euro area, theoretically guaranteeing financial stability.

COMPARATIVE ANALYSIS OF KEY SYMPTOMS OF CRISIS

The process of globalization defined as a process of consolidation of national economies which leads to a creation of uniform global economy gives also rise to multitude of various processes and situations (Kaliński, 2004). One of these is ease of spread of financial and economics crisis once they occur. This has occurred in 2006 when financial crisis which has first appeared in United States in sub-prime credit market has spread onto the entire world.

This wave of economic downturn in the countries hit by a depression resulted in overextension of public social systems as rise of unemployment beyond that predicted by Okun's law had to be bore by the government. Nonetheless the economic depression was more severe as it was exacerbated in some economies by financial crisis due to overextension of bad credits and resulting real estate crisis stemming from spiraling downward demand and oversupply.

Fortunately, as a still developing economy Poland has not been hit greatly by this crisis but Greece has been hit more strongly as the economic data in the above mentioned parts have shown. While Greece is considered to be a developed economy, Poland is still a developing one and the general agreement in the economic community is that it has sheltered Poland from suffering from crisis as greatly as other European Union member countries has had. Another point is that during the most critical period, Poland has received net inflows – that is funds from EU, while others had to bear the burden of net payers: By March 2011 Poland has used approximately €71 millions that is 122% of quantified costs devoted to Poland from European Commission (Ministry of Regional Development, March 2011).

Overall, the main cause of problems in Greek economy before its collapse has been the oversized budget deficit and public debt. The same problem is currently being emphasized by many economists in Poland. Given that, one should take careful notice in how to heal such economies from making the mistakes of its fellows.

Marek Belka, the Polish central bank president believes that "the emerging statements regarding the catastrophic state of public finances… Lack of knowledge about what has happened, is happening today and where we are in comparison to others. Such an assessment of the situation does not change my feeling that a plan presented by the government does not fully address the challenges facing Poland". He sees the possibility of finding savings of several billion zlotys in the state budget in order to significantly reduce the public finance deficit. In addition, "Poland does not have any problems with financing its debt, but rather borrowing needs because it is the final criterion for a stable situation," emphasizes Belka. It is also important to remember that Poland is not in the euro area, which in theory allows the central bank to make foreign exchange interventions, although Belka clearly stresses that "National Bank of Poland implements the strategy of the inflation targeting and not the exchange rate" (finanse.wp.pl, 27.08.2010).

MEASURES TO HEAL THE GREEK ECONOMY

The financial crisis which has affected to varying degrees almost all countries in the world was not the only cause but rather a catalyst of Greek bankruptcy. Over the years, the country's budget deficit was growing and the subsequent expenditures were financed by new bond issues which credibility by then has been reduced to junk. The real situation was for a long time concealed by creative accounting and statistics. Disclosure of the actual level of debt several years ago probably would have prevented the entry of Greece into the euro zone, yet a common currency has helped Athens to further roll the debt and on even more favorable conditions.

A reduction of the imbalance of public finances was sufficient to join the euro zone and it took place through increased tax revenues resulting from changes in the tax system i.e. simplification, elimination of most tax exemptions, lack of indexation of the thresholds and the existing concessions, the increase in VAT and excise duties, reduction of tax avoidance, increase social security contributions the introduction of new taxes: 10% tax on gains from savings in financial institutions, 7.5% tax on the interest rate of treasury securities, 2% tax on the profits of investment funds, 15% tax on derivatives transactions, the fee 0.3% of transaction value on the stock exchange and seeing higher-than-projected economic growth, reducing interest payments servicing the public debt, slowing the growth rate of public investment and increasing revenues from privatization (Ministry of Finance, 26.10.2010, p. 6). However, the fundamental reforms of system of social transfers and the rationalization of employment and wage restraints in the public administration were lacking. The short-term nature of the action taken should be emphasized.

According to forecasts of International Monetary Fund since 2009 Greece has felt the downturn but with some delay while Greece's growth decline from peak to trough was predicted to be milder than for the euro-area as a whole. Further decoupling from the euro area, which was experiencing a sharp recession, was unlikely. In 2009 the main forces have been lower investments and exports, de-stocking and a decline in private consumption as confidence and employment have dropped, but net exports were still expected to contribute to growth. That is why IMF's economists projected a somewhat recovery in late 2010, as partner countries emerge from the recession. Shipping receipts (a third of exports) have dropped with lower world trade; tourism receipts (over a third of exports) were also expected to fall, with lower demand from high-income countries and increased competition from neighbors whose exchange rates were weakening. Inflation was projected to remain above the euro average, with unemployment reaching over 10 percent in 2010 (IMF, August 2009, p. 11). Unfortunately these forecasts did not materialize.

For Greece, the biggest problem is the high level of budget deficit. Furthermore, its sharp increase in recent times is disturbing. In 2000 general government deficit amounted to 7 465 million while in 2009 it reached 36 150 million euros that is, an almost fivefold increase in less than ten years (Eurostat, General government deficit, table no. [teina200]). Failures to follow budget plans, deficit-increasing one-off measures, expenditure slippages, and ad hoc revenue efforts have coincided with persistent deficits above 3 percent since 2000, while reaching 15.4% in 2009. According to International Monetary Fund the deficit exceeded the Maastricht limit in 2007, after an exit from the EDP (Excessive Deficit Procedure) in 2006.

According to the experts (IMF, August 2009, p.24) on the revenue side, efforts should have focused on income that escapes taxation in order to spread the tax burden more fairly. This can be done by broadening tax bases by phasing out exemptions and deductions, taxing the self-employed and the informal sector, and increasing further selected excise taxes to the euro-area average. On the spending side, wage moderation (extended to pensions) and restrictive hiring policies should be continued to curb the fast growing wage bill.

To balance its books, the Greek government has relied on borrowed money, which became more difficult to obtain during recession as tax revenues were falling just as welfare payments began to rise. Investors have lost confidence in the Greek government's ability to repay its debts (Greece's credit rating has been downgraded to the lowest in the Euro zone (Q&A, 26 March 2010)), so they have been demanding ever higher rates of interest to compensate for the risk that they might not get their money back (Roberts, 6 May 2010).

Euro zone finance ministers agreed on a package of financial assistance for overburdend with debt Greece (so-called stand-by arrangement). The programs of this type are typically used by developing countries, but in this case, it was a developed country. Moreover, for the first time in the history the IMF supported the euro area country.

According to the agreement the government in Athens in exchange for economic recovery program of public finance (reform and budget cuts) is to receive by 2012, 110 billion euros to aid the ailing Greek budget. An ambitious program of reforms and budget cuts is planned to reduce the deficit to a level below 3 percent of GDP by 2014. Returning the loans granted by the IMF, the ECB and the euro area to Greece are expected to begin two years after the rescue package.

Greek Prime Minister George Papandreou announced a boost in VAT rates from 21 percent to 23 percent and tax rise on fuel, tobacco, alcohol and property (www.france24.com, 10 May 2010). In the public sector, salaries are to be reduced by 7-15%, including an elimination of the additional salaries in the form of thirteen's and fourteen's. In the pension sector, the government plans to reduce the amount of pensions, to equalize retirement ages for men and women (prior women could retire five years earlier than men) and to raise it from 60 to 65 years, to increase seniority to qualify for a pension, as well as to eliminate numerous privileges, such as early retirement by some professional groups.

Changes in the pension system are one of the key reforms in the Greek savings plan that aims at radically reducing the public debt and deficit, although it has provoked protests from trade unions since Greeks are accustomed to large social benefits. The case of pensions also divides the citizens themselves – from the published survey institute Kapa which shows that changes in retirement are supported by almost half the country's population, while 35% believe that they are unfair. It is worth noting that the reduction in government spending means that the budget deficit was reduced by 42% during the first half year of changes introduced by Finance Minister George Papakonstantinu (Piotrowski, 2010).

Greece should have also improved the competitiveness of its economy. Proposed, among others (Ministry of Finance, 26.10.2010, p. 25):

- reorganization of public administration - the creation of institutions designed to control the supervisory functioning of the administration at the central level, simplification of rules of remuneration of public sector workers and reduce the number of outlets at the local level. The aim of the planned activities is to increase transparency in the functioning of the administration, thereby reducing corruption,
- more flexible labor market - the modernization of labor market institutions, implementation of a system to facilitate the identification of undeclared employment, the extension of employment to employees for a probationary period, the reorganization of rules for conduct of redundancies and facilitation of employment on part-time basis,
- improvement of the business climate and increase in the level of competition - limiting the procedures for setting up businesses (the principle of "one stop"), to ensure compliance with the provisions of the Greek Parliament and the European Council on delivery of services in the internal market (2006/123/EC), reduction of the scale of licensed economic activities and elimination of barriers to access to certain professions such as e.g. pharmacists, lawyers, engineers, architects, notaries, transporters, and auditors,
- rationalization of state-owned enterprises - to ensure greater transparency in the activities of state-owned enterprises, improving their efficiency and ultimately reducing the losses generated by them,
- improvement in the use of EU funds - close cooperation between the European Commission and the Greek government to improve the use of funds from the Cohesion Fund and Structural Fund.

The crisis to a lower extent affected the financial system, although domestic credit growth and lending slowed due to weaker prospects, growing risk aversion and costlier funding which further lead to declining profitability reflected in increased provisioning and margin compression. Partly it was a result of aid provided to this sector (IMF, August 2009, p. 15):

- bank support package - Greece was quick to implement bank assistance via public capital injections, liquidity assistance and funding guarantees (the package has not been fully used, but is best kept in place preemptively),
- supervision - The Bank of Greece has intensified monitoring and contacts with banks' management so that additional steps are implemented to minimize risks,
- cross-border cooperation – Bank of Greece has intensified circulation of information with counterparts in SEE and urged other banks to bring credit expansion abroad more in line with local deposit growth and funding,
- crisis management - a new committee at Bank of Greece was created to monitor financial stability, implement internal procedures for identifying signs of deterioration and provide timely information for the management of crisis,
- Financial Stability Report (FSR) - the authorities have started publishing a FSR to inform the public about the health of the financial system.

Greece experiences clearly show what might be the outcome of economically costly failures in the conduct of a responsible financial policy. Especially in terms of putting off a more robust public finance reform combining it with an ambitious plan of joining the euro zone. It is important to emphasize that joining the euro area is not a substitute for public finance reform, and can only (but not necessarily) reduce financing costs of new debt, while simultaneously pushing adjustment in fiscal policy.

Therefore, if one of the country's economic priorities remains to join the euro area, it should not only meet the formal conditions for reducing the budget deficit to below 3% GDP, but also strengthen public finances to avoid potential fiscal problems in the future. In this way, we limit the risk of painful fiscal adjustments in conditions of extreme rigidity of exchange rates (monetary union), which Greece now participates in.

MEASURES TO REFORM THE POLISH ECONOMY

The greatest problem of Polish economy is its budget deficit and thus increasingly growing indebtedness. This problem should be solved immediately since its continuous escalation may lead to economic crisis in Poland, quite similar to those recently experienced by Greece..

In order to limit the growth of public debt, Polish government should lower its annual expenses. One of the biggest cost categories is related to social expenses, among them, for retired and unemployed persons. In 2006 these amounted to 49 199 989 thousand of złotys to increase to 64 642 138 thousand of złotys in 2009 and increase of 31% (Taxpayer Paper, 6 May 2009). These have risen, on one hand as a result of increasing number of retired persons and on the other hand due to incremental funds to stimulate employment. The number of retired persons per one-working person has increased as a result of the lower number of children being born for the last twenty years and so the society's aging. Various forecasts show that this trend will continue.

Even though the number of unemployed persons has declined over this period, the costs incurred to combat unemployment have risen. Only if the future unemployment will be thwarted, one will be able to conclude that the money has been spent well. Unfortunately, this seems not to be the case, since in 2010 unemployment has risen to double-digit figures again: 12.1% on average in 2010 according to Polish Statistical Office (Polish Statistical Office).

In order to combat these problems and tame the Polish budget deficit and increasing debt, the retirement age should be increased and variety of privileges related to lower retirement age should be made less advantageous. A public campaign is needed to explain that only extended saving for retirement can lead to higher retirement benefits – ones can will be adequate to live on. A pivotal problem in this regard is lack of understanding of the public of the linkage between savings and retirement benefits. The Open Retirement Funds (In Polish: Otwarte Fundusze Emerytalne (OFE)) were created as means for the ordinary people to save for their retirement. Over the many years that they have functioned, however, no effort has been made to educate the public about the way these function to accomplish public's understanding of financial process. At the beginning of 2011, these are being reformed for two reasons: One, the government needs more money to flow into the budget in form of social taxes and two, people feel more comfortable with the government being in control of their monies in hope of higher retirement benefits. However, there are no promises that Polish government will not go bankrupt in the future; as the example of Greece shows, governments can go bankrupt.

Reasons for low birth rate in Poland include insecurity of employment, lack of access to child care and enormous costs of properties. The government tries to provide aid on the latter two points. While it is still too early to judge the effects of child care law passed at the beginning of 2011, the program which was aimed at helping many families to buy their first property has been working for over five years now. The so-called "family on their own" (In Polish, Rodzina na swoim) has allowed many families to buy their own flat or house but at the same time, it allowed primary as well as secondary real estate markets to maintain inexplicably high prices with margins of about 20%. In turn, high prices fueled growth in new investments without a thought for infrastructure development which has led to some communities being deprived of access to public goods such as roads, schools and child care just to name a few.

Another important aspect of this growth has been a boom in mortgage financing and thus bad debts – the greatest root cause of financial crisis in the United States in the later part of 2000s. Although mortgages are rarely unpaid in Poland, the percentage of defaults continuously grows from 1.4% in 2010 to about 2% at the beginning of 2011 (Virtual Poland, 9 March 2011). Although the situation seems stable at present, it is important to remember those sizable portions of the flats that are mortgaged are being rented. If the property prices decline – perhaps as a result of elimination of the government program or due to declining demand over longer period of time – the rental prices might decrease and also lead to higher percentage of defaults. Furthermore, defaults might place too extensive pressure on families who will have to move out of their foreclosed properties. Such a scenario is not impossible as savings of individuals and families are limited while debts are mounting with developing consumption.

Another area to be reformed is in the expansion of public administrations. Over the past two years, economists have been alarming the Polish government that the employment in public offices at various levels is growing uncontrollably. While in 2006 expenses for public administration amounted to 8 683 508 thousand of złotys, by 2009 it was 10 738 779 thousand of złotys, that is an increase of approximately 24% (Taxpayer Paper, 6 May 2009). That is, while the number of clerks increased by 113 thousand over the period 2000-2009 (Virtual Poland, 25 August 2010). It is unfortunate that there is no data on effectiveness at work of this group yet one can expect that it has not risen given the simultaneous high increase in costs. This should be quickly reformed, first by conducting studies on effectiveness, second by eliminating unnecessary and cumbersome red tape and third by restructuring employment.

Finally, another method to improve control over Polish central budget and spending is to change from goal-oriented construction of the budget to task-oriented one. This would allow for greater command over effectiveness of incurred expenses and setting of tasks annually depending on the demographic, social and economic needs. Such construction, however, is not favored by the present central government as it would limit the possibility to give in to needs of various groups, particularly before elections.

CONCLUSIONS

Poland and Greece are different in various aspects. While in the 1990s Greek's economy was already well-developed, the Polish one just began to take off. Greek's economy as one greatly dependent on tourism emphasized investments into infrastructure while maintaining for its citizens good quality of life. In Poland, while the latter was to some extent ignored for many years, the private sector – service sector – expanded which fueled economic growth and simultaneous improved quality of life. Even though the paths of economic development were thus different, they have lead to quite similar problems – the large public budget deficit and enormous indebtedness. Greece has not taken action for many years covering the problem with additional issues of public securities that in the end has led to complete bankruptcy of a country and in turn essential yet hurtful for its citizens' savings. Today, Poland is in a quite similar situation as Greece five years ago. It seems like the Polish problems with mounting deficit and debt should be more carefully securitized and studied in order to prevent mistakes those made by Greece. In this article, we have tried to point out some areas for reform.

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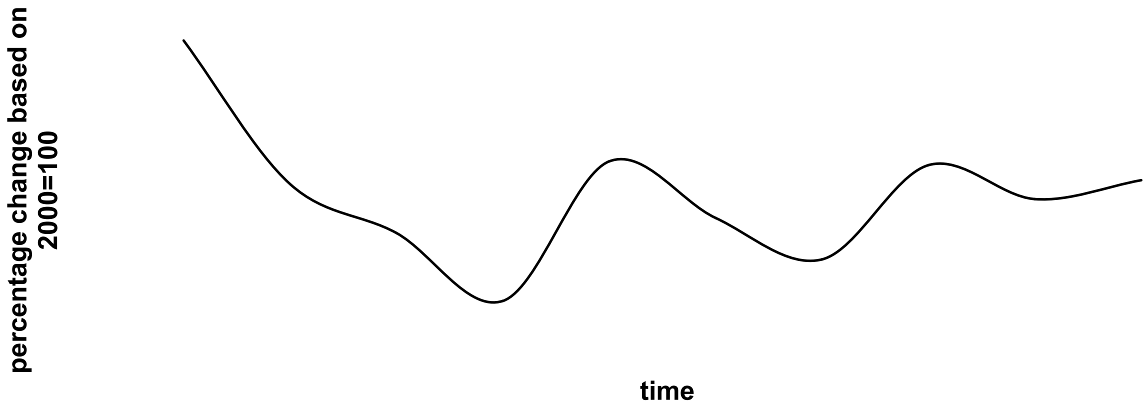
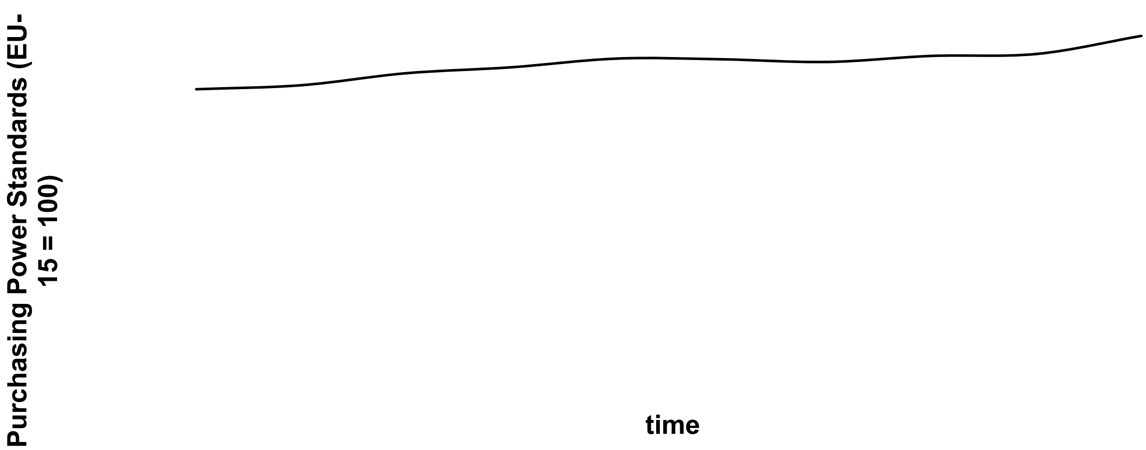
APPENDIX

FIGURE 1
GDP AND MAIN COMPONENTS – PRICE INDICATES



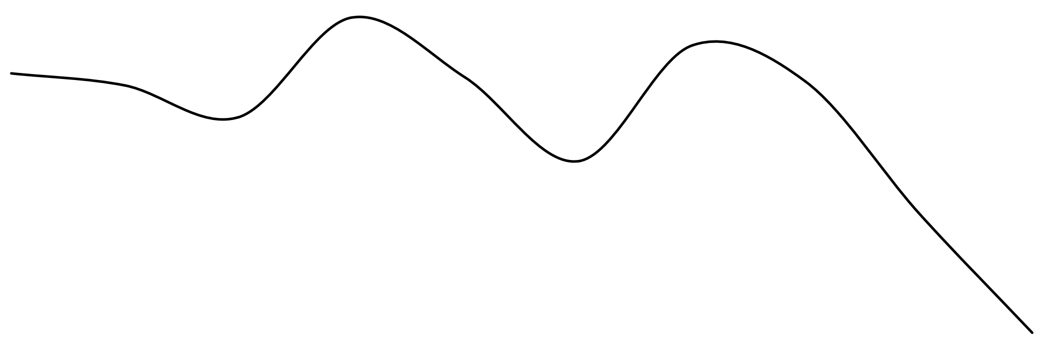
Source: Eurostat, http://epp.eurostat.ec.europa.eu/, GDP and main components – Price indices, database no. [nama_gdp_p]

FIGURE 2
LABOUR PRODUCTIVITY PER HOUR WORKED



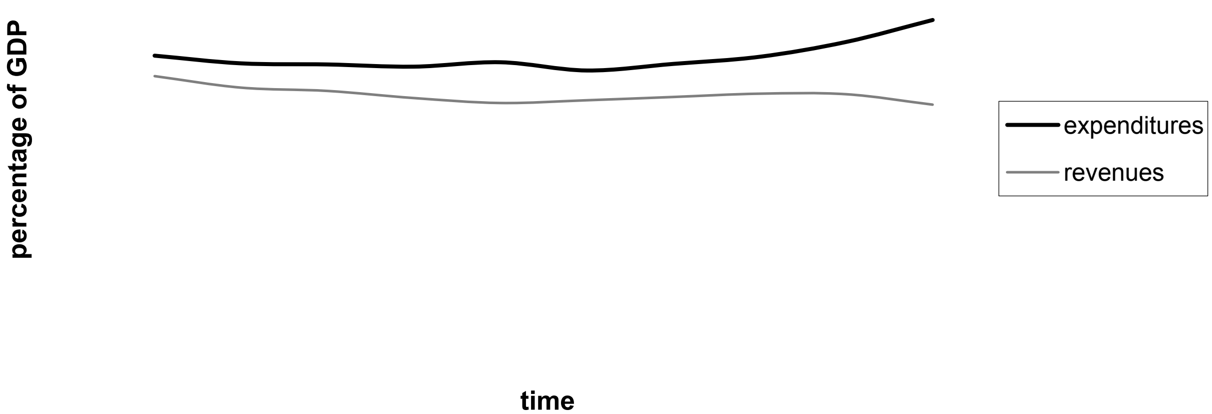
Source: Eurostat, http://epp.eurostat.ec.europa.eu/, Labour productivity per hour worked, table no. [tsieb040]

FIGURE 3
REAL GDP GROWTH



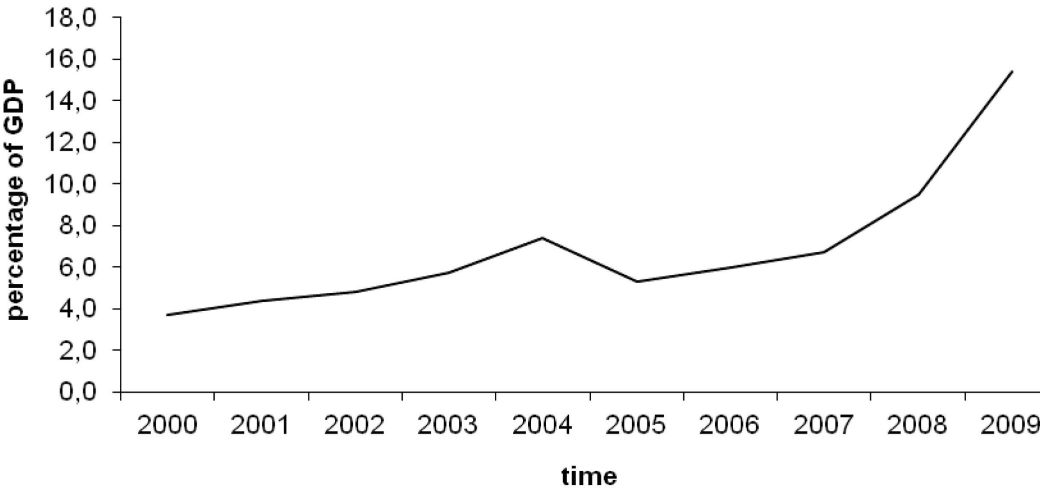
Source: Eurostat, http://epp.eurostat.ec.europa.eu/, GDP per capita in PPS, table no. [tsieb020]

FIGURE 4
GOVERNMENT EXPENDITURES AND REVENUES



Source: Eurostat, http://epp.eurostat.ec.europa.eu/, Total general government revenue, table no. [tec00021], Total general government expenditures, table no. [tec00023]

FIGURE 5
NET LENDING



Source: Eurostat, http://epp.eurostat.ec.europa.eu/, General government deficit and surplus, table no. [teina200]