

## **The perils of populist democracy and debt**

By Gary Johns, 17 June 2015

For Greece, the party is over, and no one can afford the plates to smash. Greece entered the Eurozone in 2001 with debt, and it will likely leave the Eurozone soon with huge debt.

Fierce debate rages around the conditions imposed by Europe on Greece. But Greece lied about the state of its books upon entry. And this bailout is just the last in a long line. This is a Greek tragedy, not Keynesian or capitalist.

### **Greece appeared to be a modestly prosperous European nation**

For nearly three decades after its emergence from military rule and especially after its 2001 transition into the Eurozone, Greece appeared to be a democratic and modestly prosperous European nation. What happened and why Greece became the first European liberal democratic state to fail are questions that should exercise all democracies, Australia's especially.

Let me tell you three stories of my short visit to Athens in 1980. I arrived late at night at Athens airport. Taxi drivers everywhere touted for business. "Where you from?" "Melbourne." "I got cousins in Melbourne!" "Of course you have." "Where do you want to go?" "Athens, I only have a day to walk around." "I take you to my uncle's hotel, beautiful!"

It was a surprisingly short drive to his uncle's hotel. The next morning I had to catch a bus 20 kilometres into Athens. The bastard lied.

I roamed the markets of Athens and asked to buy an orange. The street-market vendor would not sell one; he insisted I buy five. I told him to get stuffed. Perhaps it was infamous Greek regulation.

I posed for a photo against the Athens skyline, paid upfront; the photo would be delivered by post. I had no confidence it would, but a couple of weeks later it did. Lo and behold, an honest Greek.

Somewhere between the honest Greek, the crooked Greek and Greek regulation lies the answer to our questions.

The economics are simple enough. The problem is not one of public debt but the lack of competitiveness. In 2004, the newly elected prime minister was quoted as having said: "Greece is a country that does not invest, does not produce, does not export. How can she survive in the tough world of globalisation?"

### **Governments chose the easy option**

Greece has a massive current account deficit. Instead of tackling the problem governments chose the easy option. They started to employ ever more public servants. The budget deficit deteriorated. Even worse, the intervention promoted a culture of entitlement and dependence on government, as well as corruption. The politics are complex. Greece had a brief period as a liberal democracy, then it slid into populist democracy.

Takis Pappas writes: “Greece’s failure is the outcome of a long process during which populism prevailed over liberalism.” Typical of populism is politicians shifting blame: the people against the elite, the blameless “us” and the harmful “others”. The debate did not centre on what type of reform was needed but who was to blame.

Governments were bent on handing out political rents to practically every member of society. The party system ensured the distribution of rents in an orderly and democratic way. The political class and the vast majority of Greeks exploited public resources. Here is how they did it.

Public-sector employment in Greece rose steeply during the 1980s and continued to grow at least until 2008. In that year, Greece had slightly more than one million public-sector employees, enough to make up more than 20 per cent of the workforce.

Pensioners, who had worked until the age of 65, received on average a pension equal to 96 per cent of their previous earnings, compared with an average of 59 per cent for the OECD.

### **Closed-shop professions**

More than 130 closed-shop “professions”, including lawyers, pharmacists, engineers, architects, truck drivers, port workers, auditors, electricians, financiers, private investigators, insurance consultants, hairdressers, newsstand operators, taxi drivers, real-estate agents, notaries and street-market vendors were shielded from competition. Through regulations and licensing, taxpayers propped up the closed-shop professions.

For decades, Greeks were allowed to act illegally against the public interest with no punishment through rampant tax evasion, unauthorised construction, pension fraud, and legislative immunity. As many as one million homes and other dwellings were built illegally in Greece in recent decades. About 40,000, and possibly as many as 200,000, people had wrongly been collecting pension benefits, in some cases for as long as 20 years.

### **State officials enjoy legal impunity**

Members of parliament are immune from criminal prosecution, arrest, or detention while in office.

For several decades, practically every Greek could reap rents from the public purse. Voters learnt that the public purse was up for grabs and that it was better to work through party contacts rather than venture into the market. They also learnt that even if one’s party lost at the polls, it was likely to return to power next time round.

Politicians learnt that there was no mileage in reform.

As Angelo Antzoulatos writes: “In ancient tragedies, a deus ex machina would fly in when humans could not find a solution. In this modern tragedy, Greeks themselves can be the only deus ex machina.”

Look alive Australia: make sure we are not next.

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