
Rent Seeking in the Greek Economic Drama

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The austerity measures of the Greek socialist government of George Papandreou (2009–11) did not succeed because his government, which had replaced the conservative government of Kostas Karamanlis (2004–2007, 2007–2009), did not rein in the inefficient Greek public sector. In essence, the Papandreou government’s austerity measures were neither far reaching nor comprehensive enough to deal successfully with Greece’s dire fiscal situation. According to Eurostat, in 2009 Greece’s public debt was 115 percent of gross domestic product (GDP), and the public deficit was 13.6 percent of GDP. In 2011, the Greek authorities estimated the public debt at approximately 160 percent of GDP and the public deficit at approximately 9 percent of GDP.

An appropriate title for the Greek government’s recent austerity measures would be “Economic Policy at Gunpoint,” to paraphrase the title of Andreas Papandreou’s book *Democracy at Gunpoint*, which he wrote when he was fighting the dictatorship in Greece in the late 1960s. Andreas Papandreou, the father of Prime Minister George Papandreou, was a radical socialist, both as an academic economist and as a politician. He ruled Greece as prime minister throughout the 1980s and for a few years in the 1990s.

Andreas Papandreou set in motion Greece’s fiscal excesses in the post–World War II era. He escalated both the fiscal deficit and the public debt enormously while brutally socializing factories, shipyards, refineries, and utilities as well as expanding the public sector tremendously. In 1981, he took over a public debt

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amounting to 29.7 percent of GDP; in 1990, when he lost the elections, the debt amounted to 80.7 percent of GDP. Yet even this high percentage seriously understated the public debt because it did not include the unpaid state collateral awarded to numerous state companies, public corporations, and public utilities. This ruinous public debt ultimately caused the first modern Greek fiscal crisis in 1993.

In pursuing these policies, the socialist Andreas Papandreou was ironically only following, albeit in a more radical way, the broad program of nationalizations that the conservative Konstantinos Karamanlis had established before him. And there is perhaps a similar irony in the fact that Konstantinos Karamanlis, who ruled Greece in the 1970s, was the uncle of the more recent prime minister, Kostas Karamanlis, who ruled Greece from 2004 to 2009 and left the country in an unprecedented fiscal mess.

A third irony, if not the great paradox that brought Greece to the threshold of default, is that the young conservative Kostas Karamanlis learned his worst lessons in economic theory and his worst policies as a practicing politician from the socialist Andreas Papandreou. From the beginning of his term in office as a young, fresh Greek prime minister, Kostas Karamanlis led the country on a course of state gigantism that absorbed like a sponge all the revenues accumulated from five years of successful privatizations. Total public expenditure increased dramatically, seemingly without political or economic limit. As under Andreas Papandreou's control, the vast Greek public sector in Kostas Karamanlis's hands became a tool for his reelection and the consolidation of his political position.

A fourth irony, which amounted to Kostas Karamanlis's fatal mistake, was that before the elections of October 2009 he announced a freeze on the salaries of public-sector employees. Faced with the state of emergency in Greece's public finances, Karamanlis spoke the truth in the eleventh hour. But opposition came from the very people who had been hired, explicitly or implicitly, in the public sector. His followers—his political “army,” his political “clients,” to use the terminology of rent-seeking theory—did not follow him.

Viewed from the perspective of the political economy of rent seeking (Tullock 1967, 2005; Krueger 1974), modern Greece possesses all the characteristics of a deeply rent-seeking society (Mitsopoulos and Pelagidis 2009, 2011). In this type of society, politicians work as brokers in a system of political clientelism. They expand the public sector, exchanging jobs for votes. They also push the private sector into bed with the public sector, assigning to the former secure profits, privileges, and finally explicit and legally established rents—with bribes and corruption forming the dark side of the modern Greek economy. On the basis of this trade-off between political and economic rents, farmers are enriched through subsidies, and workers' unions negotiate collective agreements that fix wages much higher than can be justified on productive grounds.

In short, rent-seeking behavior is chronic in modern Greek society, resulting in the emergence of a generally inefficient institutional economic framework that is financed through a dramatically expanding public deficit and public debt and supported by a strong continental currency, the euro. Although it could not have been Greece that Douglass North had in mind, his words on the future of democracies written more than three decades ago have an apt ring in regard to present-day Greece: “The pluralist control of the state which emerged from the struggle of workers, farmers, and business groups has produced the disintegration of the earlier structure of property rights and replaced it with a struggle in the political arena to redistribute income and wealth at the expense of the efficiency potential of the Second Economic Revolution” (1981, 185).

What a lesson for all future and potential expansionist politicians! We cannot assert, however, that this outcome has no precedent in modern Greek history. The names of Greek rulers change from “Karamanlis” to “Papandreou” and back again,¹ and the nominal political direction changes between conservatism and socialism, but the size of the state remains stably excessive as well as anomalous, and fiscal conditions worsen at an accelerating rate.

Former prime minister George Papandreou promised salary increases, Keynesian warming of the economy, and redistribution of income, yet after winning the most recent election, he finally decreased salaries and drastically cut public expenditure. This George Papandreou the younger (his grandfather of the same name was prime minister in the 1960s) played the leading role in the modern Greek Fiscal Tragedy, imposing draconian measures to pay for the sins of his father, Andreas Papandreou, and of his father’s “best student” Kostas Karamanlis, with very heavy consequences. I predict that these austerity measures will meet the same fate as the notorious Laws of Dracon that were applied in ancient Athens. The austerity of Dracon’s Laws was symbolized by their being written not in ink, but in blood. They restored order to ancient Athens and were finally reformed by Solon. The spirit of Solon’s Laws was such that they brought harmony without austerity and coercion, ushering in the Golden Age of ancient Athens.² Modern Greece is evidently destined to relive the hardship imposed by Dracon before it can hope for deliverance akin to that brought about by Solon.

1. The political phenomenon of democratically elected leaders’ establishing family political dynasties that last for two or more generations can be seen not only in countries such as Greece, India, Pakistan, and Argentina, but also in the United States. This feature of the institutional development of contemporary democracy deserves further study.

2. Highly individualist moral values decisively determined the social norms, the free institutions, and the rule of law that after Solon’s reforms minimized social transaction costs, advanced free enterprise, and generated the rapid economic growth and general wealth of classical Athens (Bitros and Karayiannis 2008, 2010; Karayiannis and Hatzis forthcoming).

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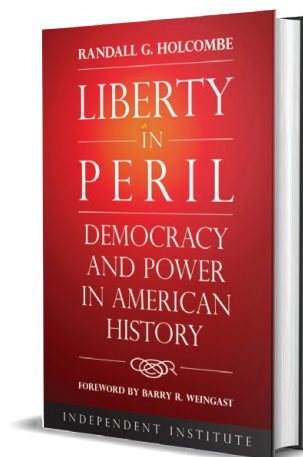
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