THE WALL STREET JOURNAL.
WSJ.com

Why Greece Won't Reform

Over the past year the government hasn't laid off a single civil servant.

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Sometimes it is self-evident truths that cause the strongest reactions.

That was exactly what happened recently with statements attributed to Philipp Rösler, Germany's vice chancellor and economy minister. "To stabilize the euro in the short term, there can't be any taboos," Mr. Rösler said. "That ultimately includes Greece's orderly insolvency, if the necessary instruments are available."

For the Greek political class, the statement was a stab in the back. A statement by a leading German politician that a Greek default was unavoidable appeared to undermine the self-styled "Herculean" efforts of the Greek government to implement the measures envisaged in the bailout plan.

But others entertain strong doubts about the willingness and ability of the Greek political class to implement the structural measures that will improve the performance of the Greek economy. "The present government has done absolutely nothing during the last 12 months to speed up privatizations, reduce the public sector or open up closed professions," Athanasios Papandropoulos, a leading economic analyst, told me recently in an interview. "In these 12 months it has not fired even one civil servant. The only thing it is doing is trying to tax the private sector out of existence. Why should we believe that they will do something different now?"

One commentator writing in the newspaper Kathimerini this week made the point even more forcefully: "Whereas more than 1,000 Greeks were losing their jobs in the private sector every day in August, the government was assuring civil servants with lifetime tenure that their job privileges were not in danger."

Structural reforms have been repeatedly announced by Greek officials during the past. Yet nothing has happened. Greece's plans tend to resemble Soviet Five Year Plans: They look good on paper but have absolutely no bearing on reality. Anyone in the government who tries to point this out is forced to resign. Economist Stella Balfousia, the head of the Greek Parliament budget office, had to tender her resignation after her office published a report contradicting the government's official forecasts on debt and deficit.

Privatization is a case in point. Greece will have to raise some €1.7 billion by the end of September from the privatization program and €5 billion by the end of the year from the medium-term fiscal strategy program. Yet in the past year and a half not a single privatization has taken place. The explanation given for this is the low share prices of the listed companies. The real reason is probably that Greek politicians are loath to give up the system of spoils that they have long run through these enterprises, which are staffed by the party faithful in exchange for votes.

"It is time that Greece's creditors start demanding from Greece concrete and immediate reforms. Not words, not plans—but facts," says Andreas Andrianopoulos, a former minister who now heads the Forum for Greece, a liberal think tank.

Today most Greeks think that it is Greece's foreign lenders—especially Germany—that are imposing on the country the harsh new taxes that, absent structural reforms, will simply make the recession deeper. Mr. Andrianopoulos says that the lenders know better. "Our international creditors should make it very clear that it is not they that are forcing Greeks to pay higher taxes, but rather the unwillingness of the Greek government to fire civil servants, to stop subsidizing the unions and to close defunct state bodies."

But the Greek government will continue to prevaricate as long as Greece's European partners are unwilling to state that Greece's exit from the euro zone is a real possibility. Mr. Rösler may have been stating the obvious, but it was the first time that a leading German politician indicated that a Greek default may not be the end of the world after all. Such a view is of course anathema to the Greek politicians who have understandably been using the threat of bankruptcy as a bargaining chip to get better terms from their creditors.

Mr. Michas is a columnist for protagon.gr. His study "Putting Politics above Markets: Historical Background to the Greek Debt Crisis" was recently published by the CATO Institute.