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The Failure of the Greek Economic Model

For 150 years, Greece has relied on clientelism and political favors to run its economy.

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The debacle of the Greek state should not be seen simply as the result of fraudulent budget statistics or a few years of profligate spending. Instead, it signifies the collapse of a model of economic development that from its very inception in the 19th century has always placed politics above markets.

The central organizing principle of Greek society has always been political clientelism—a system in which political support is provided in exchange for material benefits. In this situation the state's role as the main provider of benefits to various groups and individuals becomes paramount. As Greek left-wing historian Kostas Vergopoulos puts it:

"The fundamental structure of Greece has never been civil society but the state. Ever since the middle of the 19th century nothing could be done in Greece without it necessarily passing through the machinery of the state."

In the Anglo-Saxon world the state was primarily seen as a protector of certain Lockean rights, especially the right to private property. This concept went hand in hand with the existence of a ruling class with vested interest in large property holdings.

In Greece, however, the social group that took over after the liberation from the Ottomans were the local notables whose power lay not in their ownership of land but in the fact that they acted as tax collectors for their Ottoman rulers. Thus in Greece the ruling class that emerged after independence saw the state not as an instrument for the protection of pre-existing assets, but as its chief source of income.

At the same time, control of the apparatus of the state became the primary mechanism for the distribution of material rewards and benefits. The most important of these benefits was the provision of jobs in the civil service. By the late 1880s, Greece already had one of the largest state bureaucracies in Europe: For every 10,000 inhabitants there were 200 civil servants in Belgium, 176 in France,126 in Germany and 73 in Great Britain. In Greece, the number was 214. As the French nobleman and author Arthur Gobinau observed at the time:

"In Greece a whole society seems to be operating on the motto that to the extent that only the state has money one should take advantage of this fact and work as a civil servant."

Much water has of course flown under the bridge since those days. Greece experienced wars, occupation, dictatorships, revolutions, earthquakes etc. Yet one thing remained constant: Political clientelism as the leading doctrine of governance.

Today there are three types of benefits that the state provides to various client groups and individuals. The first and the most coveted benefit is a sinecure in the civil service. Approximately one million people, or one out of four working

Greeks, is employed by the state. More than 80% of public expenditure goes toward the wages, salaries and pensions of these public-sector workers.

The second way the system of benefits operates is by granting privileges to various professional groups, such as lawyers, public notaries, truck owners, loaders in central markets, pharmacists, and opticians, creating in effect "closed shops" that limit competition to the benefit of the insiders.

The third category of benefits are levies imposed on various transactions for the benefit of groups that are not part of the transaction. For example, if you start a business in Greece you have to pay 1% of the starting capital to the lawyers' pension fund. Each time you buy a boat ticket, 10% of the price goes to the pension fund of the harbor workers. If you sell supplies to the army, you will have to pay 4% of the money you receive to the military officers' pension fund. Intriguingly, sometimes levies are imposed for the benefit of groups that no longer exist. Such is the case with the lighters on the island of Santorini. These launch-boat operators long ago became extinct. Yet part of the price of the passenger tickets for ships that dock at the Santorini harbor is still for the association of the (non-existent) lighters. Nobody knows where the money goes.

As a result of these schemes, more than 70% of the Greek population receives its income wholly or partly from taxes or levies. This in turn implies very intense and fierce struggles over the distribution of benefits—what economists call "rent-seeking." Thus a considerable amount of resources that could otherwise be used to generate wealth and income are wasted in fighting over the slices of a shrinking economic pie.

Unfortunately, there are no economic studies that have looked into how much money is being wasted in rent-seeking. But we can get an idea by looking at what the restrictions on the economy cost in lost output. For example, some academic studies suggest that if Greece opened up its closed professions it would boost its GDP by 1%, and if it eliminated restrictions in various markets it would increase economic output by 2%. If it brought the bureaucratic costs of doing business in Greece in line with the rest of the European Union, this would bring about an increase of 3.5% of GDP.

Particularly in the past few years, the left has been arguing that the main drawback to capitalism is that it allegedly puts "markets above people." That's why they believe that political intervention is needed to tame the markets and restore the people to their rightful place as "masters" and not as "slaves" of the market.

The Greek model provides the perfect realization of this vision. Greece has always placed "people"—that is, "clients"—above markets, with the tragic results we see today.

Mr. Michas is the author of the study "Putting Politics above Markets: A Greek Tragedy," to be published by the Cato Institute later this year.