Clientelism and Economic Policy: Greece and the Crisis
Aris Trantidis
New York: Routledge, 2016, 256 pp.

Since the beginning of the global financial and economic crisis in 2008, Greece has lost almost a third of its per capita GDP. Youth unemployment in the country is at a staggering 50 percent. Almost half a million Greeks have left the country in search of economic opportunities. How exactly did the country get into its current economic situation, and why didn't Greek policymakers do something before it was too late?

There are two broad ways of answering those questions. The first stresses the importance of informal institutions and culture. Perhaps sound economic policies, fiscal restraint, and flexible markets were at odds with the "Greek way" of doing things. A particularly nasty version of this cultural account, prevalent in some circles, blames the depth of the crisis of the purported "laziness" of Greeks. Another, arguably more compelling, interpretation looks at the role of interest groups in driving public policy in Greece in an unsustainable direction. Aris Trantidis's book belongs firmly to the latter tradition, relying on a rich theoretical apparatus from institutional and public choice economics. In his view, the Greek failure to reform can be tracked down to a specific form of clientelism that has become entrenched in the country's postwar history.

There are different accounts of clientelism, or patronage. The simplest one involves a direct transaction between the politician and voters, where rents are exchanged for support. More sophisticated accounts of clientelism emphasize the role of party structure and the role of rents in mobilizing support needed for electoral campaigns. Trantidis's account of the Greek situation enriches that perspective by studying the connections between political parties, in this case New Democracy and PASOK, and other organizational structures, including labor unions, universities, the army, judiciary, public administration, agricultural cooperatives, and local councils, which were all connected with the wider networks of political patronage. While not formalized, the theoretical account yields a number of testable implications. The most important is the idea that clientelism biases economic policies, including economic reforms, in a direction that protects rents and disperses the costs among the broad population.

After outlining the theoretical argument and embedding itself in the broad tradition of Virginia-school public choice (chapters 1 and 3), the book proceeds with a sequence of analytical narratives that explain the emergence of Greece's clientelist structures (chapter 2) and their robustness in the face of economic crises and pressure to reform (chapters 4–11). The country's development model after the end of its civil war in 1949 relied heavily on state ownership of the industry. That, in turn, gave birth to clientelism in the form of allocating job positions in state-owned enterprises and across the public sector on the basis of political loyalty. In addition, the labor unions would ensure a presence of rents, in the form of job and salary security, generous leave, and costly pension policies.

After the fall of the military regime, clientelism helped entrench a bipartisan system with high costs of entry for prospective challengers to either PASOK or New Democracy. Clientelism, which can normally be thought of as an informal arrangement, has become a permanent and institutionalized feature of Greek political and economic life. As Trantidis's theoretical model predicts, the system was generally resistant to economic reform. In the aftermath of the 1985 crisis, however, PASOK was forced to embark on a program of reforms.

Those were, however, designed in a way that left the rents and clientelist structures intact. A few years later, when faced with additional economic pressure, the New Democracy government led by Prime Minister Konstantinos Mitsotakis decided to disturb the clientelist equilibrium by presenting an ambitious privatization agenda. However, an immediate political backlash ensued, including from party structures for which we were no longer in a position to mobilize popular support. After New Democracy lost power to PASOK in 1993, the reforms continued but were designed carefully not to erode rents flowing to party loyalists. If privatization occurred, for example, it was exclusively in the form of sales of minority shares to private investors to keep the mechanisms of political patronage in place, guaranteeing employment for party loyalists. Whenever the government attempted a change that affected the availability of rents, a quick reaction ensued, mediated mostly by labor unions and party structures. The most salient example involved the 2001 reversal of the country's pension reforms, which were required to strengthen the government's fiscal probity ahead of joining the eurozone.

Adopting the euro was a salient goal, shared by Greeks across the political spectrum. Besides prestige, it was expected that the membership in the eurozone would send a desirable signal to investors about the prospects of the Greek economy. In order to qualify for membership, the government thus maintained a policy of hard drachma and increased taxes to consolidate Greece's public finances. Simultaneously, virtually everything was done to prevent the loss of public-sector employment. Once the country was in the eurozone, the lower borrowing costs strengthened the clientelist structures and, coupled with a lack of credible fiscal rules, led to an unsustainable accumulation of public debt.

When the global financial crisis started to unfold in 2008, Greece found itself in a vulnerable position. The solvency crisis and the unavoidable budgetary cuts prescribed by the Troika meant that the rents that formed the core of the clientelist system have disappeared. As a result, the effective duopoly of PASOK and New Democracy became impossible to sustain and dramatic political realignments began to take shape, bringing the populist far left (Syriza) and far right (Golden Dawn) to political prominence.

Of course, Trantidis's theoretical apparatus is not applicable only to Greece. Austria is another country that has been long characterized by having a duopolistic political structure with deeply embedded clientelist networks, which are as of late being challenged by populist, far-right outsiders. However, Austria has not experienced an economic crisis on a scale even remotely resembling the one seen in Greece. Understanding the dynamics of clientelism, rent seeking, and populism in that country would be a worthwhile research project in its own right. It is also impossible to escape the impression that the illiberal turn taken by some democracies of Central and Eastern Europe, most notably Hungary, goes hand in hand with an establishment of clientelist structures. Unlike in the Greek case, where the rents flowed predominantly from employment in the public sector, postcommunist countries control comparatively small parts of the economy. The relevant nexus of politics and economics there lies in the intersection of public procurement, typically nontransparent and overpriced, and campaign financing by companies and entrepreneurs close to political parties (and on the receiving end of such overpriced procurement contracts).

For all its merits, Trantidis's book leaves unanswered two important questions: First, how can clientelist systems be reformed without inflicting massive economic and social pain on populations, as we are currently seeing in Greece? And second, are there any attributes of political systems—such as electoral rules—that limit or mitigate the risk of clientelist capture? To be fair, however, it is unlikely those two questions have simple answers, and they almost certainly cannot be addressed through a case study, no matter how meticulous, of one country alone.

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