The Economist

Greece and the euro

The abuses of austerity

A new plan to cut Greece's debt looks doomed to fail

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SOME years back a Greek finance minister, fed up with his country's waste and extravagance, claimed that he could save money by shutting down the national railway and driving its passengers around in taxis. He was accused of hyperbole but seems, rather, to have been guilty of understatement. In 2009 the Greek railway collected just €174m ($250m) in fares and other revenues. Meanwhile, it spent €246m on wages and lost a total of €937m.

On June 29th, with tear gas billowing around the rioters outside the Greek parliament, politicians in principle backed a new punishing austerity plan. As *The Economist* went to press, they were expected to implement the austerity plan in a second vote. That would open the way for the euro-zone countries to approve a second rescue package for Greece likely to be worth around €120 billion.

Alas, Greece's austerity plan looks doomed to fail. It does too little to prevent the epic folly of Greece's railways and other ruinous schemes. It will screw down too hard on ordinary Greeks, with new taxes, spending cuts and a rushed privatisation scheme. And it will almost certainly condemn Greece to recession, strife and an eventual debt default.

Greece needs reform as surely as ouzo gives you a headache. Its economy is sickly. Its debt, due to surpass 160% of GDP in the months to come, is unsustainable. The plan does not reduce that—and French machinations to roll some private-sector debt into a "voluntary" package of cash and long-term bonds may make an eventual restructuring harder (see article). The government cannot finance its own budget deficit and will run out of money by mid-July without financial help from the rest of the European Union and the IMF. Because the austerity plan is the price of that help, Greece's politicians had no choice but to vote for it. But nobody should be under any illusions about what they have signed up to.

The economics of the plan are too zealous. The attempt to raise just over €14 billion in new taxes over the next five years will further depress the economy, so the extra levies will raise less than expected and the country's debt will be even harder to bear. The planned privatisation of €50 billion-worth of firms and land also looks set to fall short, partly because the forecast prices are over-optimistic and partly because organising a sale every ten days or so is unfeasible. In theory privatisation has the scope to restructure the economy, but a fire sale risks letting the choicest

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assets fall into the hands of cronies who will manipulate regulation to suit themselves.

By contrast, the politics of the plan is too timid. It avoids taking on powerful lobbies who benefit from wasteful public spending. For example cuts in medical spending of €310m are promised this year. That might sound like a lot, but Greece's over-generous markups to pharmacists add something like €1.5 billion a year of extra spending to its drugs budget alone. The government also seems to lack the stomach to see its plan through. It has said that it will cut civil-service jobs—but the suspicion is that those on temporary contracts, not the expensive and virtually unsackable people on permanent contracts, will go. Even the railways, which are down for privatisation, may well be sold with guarantees protecting jobs and services.

On the wrong track

Making Greece's economy work better would mean far greater changes to a dysfunctional state. That means defeating the unions, important allies for the politicians. It would also mean dismantling the system of patronage, on which politicians thrive. Whether you are after a government job, a licence, or a favourable tax assessment, politicians are essential allies. Greece needs transparent and impartial rules, but politicians are not keen to limit the scope for dishing out favours. Anyway, Greece's politicians reckon that so long as they pretend to fix their country, the EU will hand over the money whether the plan succeeds or not. After all, who wants to pull the plug on Greece if that risks contagion across the euro zone?

Every quarter, before the euro-zone countries and the IMF release the next tranche of aid, they must decide whether Greece is on track. Every quarter, it will become clearer that the answer is no.

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