# Tomorrow never comes [1]

Written by **Sam Bowman** [2] | Monday 18 June 2012

So that's sorted, then. Greece has given the pro-bailout parties a narrow majority (thanks to a quirk of the Greek electoral system that gifts fifty extra seats to the party that wins the most votes). Greece will take another bailout; the markets can stop panicking; the crisis is averted; the euro is saved.

Well, not quite. Had the anti-bailout far-left SYRIZA coalition won, the situation would be moving a lot more quickly towards a Greek exit from the Eurozone and, in all likelihood, a rapid acceleration in the Eurozone crisis. That Greece will probably take a bailout will soothe bond market traders' anxieties for a while. But look at how short-lived that period of calm following a bailout has become ? Spain's sovereign debt yields fell for just a few hours after its bailout last weekend, and then quickly returned to historical highs.

In all likelihood, it seems that the next Greek bailout will be no more final than the last two were. Spain is rumoured to be seeking another, governmental bailout (as opposed to last weekend's one, aimed at bailout out Spanish banks).

The upshot of the last few weeks' developments in the Eurozone is that bailouts of banks and countries have become institutionalized. The lack of any real objection to the Spanish bank bailouts underline the reality that there is no European bank whose losses, if great enough, will not be moved to taxpayers in that country. Ireland's landslide "Yes" vote for the Fiscal Compact Treaty means that the European Stability Mechanism bailout fund is now a feature of EU law. The settlement is now more-or-less official: If banks are irresponsible, taxpayers will bail them out; if states are irresponsible, taxpayers will bail them out.

The political economy of this settlement should not be a surprise. Clients of the state ? the various interest groups comprising interconnected banks, public sector workers, pensioners, subsidized and otherwise-protected businesses, and others ? appear to be so embedded in the political fabric of the Eurozone states that policies for the good of the country, such as orderly bank defaults or radical competitiveness reforms, are impossible. Ireland's "Croke Park Agreement" that protects public sector workers from layoffs is just one example [3].

Mancur Olson, in his masterpiece*The Rise and Decline of Nations*, argued that this is a pattern of history. Olson argued that states may flourish when their leaders aim to act in the general interest, but over time special interest groups will accumulate, eventually causing politicians to become hostage to them over the interests of the numerous, but voiceless, citizens.

In Olson's words, states become victims of "institutional sclerosis" as groups who will lose from any reform establish themselves, making political change impossible. He used the post-1945 success of Germany, Japan and Italy as examples of countries whose client groups were obliterated, allowing their governments to carry out generally beneficient reforms without significant opposition. (I wonder if post-reunification Germany's labour market reforms are another example of this. I don't know.)

European leaders have, it seems, learned that voters will choose a known decline into destititute service to reckless banks and clients of the state over an unknown economic disorder that contains much destructiveness, even if it may prove to be creative. I doubt Greece will manage to stay in the Eurozone and avoid sovereign default. (It has already defaulted once during the crisis, despite the euphemistic language used to avoid calling it that.) But I am much less certain that the Euro crisis will ever come to the head that constantly appears to be on the horizon.



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