

Preface

Many ordinary as well as educated citizens in Western democracies have made it a habit to blame the organisation of their economies for every real or imaginary malaise. Markets are blamed for unemployment, inflation, inequality, poverty, etc., because they allow “capitalists” to pursue their insatiable greed without restraint. However, one must concede that most, if not all, of the progress achieved over the millennia, from the lengthening of life itself to the immense improvement in living standards, is due to market-based institutions and the incentives associated with them. The late Prof. Karayiannis* and myself found it most surprising how few understand that, while a free market economy without democracy can exist, the opposite is impossible. It seems inexplicable that so many citizens declare their support of democracy and yet, simultaneously, welcome further government controls or even elimination of free markets. The objective in this book is to highlight the relationship between democracy and free markets, so as to make it clear that, when citizens encourage or even welcome the imposition of restrictions on property rights and voluntary exchanges, not only do they undermine their own liberties, but they also slowly and surely contribute to the erosion of the only means to social progress, i.e. the mobilisation of self-centred human actions via the free markets in the economy.

Our view is that, with the exception of (a) the temporary and highly beneficial shocks caused by technological progress and (b) the shocks emanating from natural disasters, all other undesirable developments in market-based democracies are induced and prolonged by government failures. To corroborate our premise, we invoke arguments and evidence in two parts. In the first part, we focus on the operating principles, problems, and results achieved by societies organised politically and economically where a minority cannot make decisions on matters of common interest without the majority’s consent. We start this journey in history with the invention of market-based direct democracy in ancient Athens roughly 25 centuries ago. We continue with the reemergence of democracy two centuries ago

* He passed away early in 2012. With the exception of a few minor changes necessitated by this event, the preface is identical to the one we wrote for the 2011 edition of this book in Greek.

in the West, in the form of classical representative democracy. Then, we turn to the contemporary representative democracy that came about as a result of the economic crisis of 1929. Lastly, we close this part with an assessment of the prospects for direct digital democracy in the context of the technological progress in information, computing and communication sciences.

This first part is general. It places emphasis on the principles that render free markets a *sine qua non* condition for democracy and not on the results from their particular application in a given country or time period. In the second part, we present a case study, explaining in considerable detail how these principles were applied, and what the outcome was in Greece since the Second World War. During this period Greece went from a period of spectacular economic growth (1954–1974) to a period that led to her current economic calamity (1974–2010). Thus, we can draw many lessons regarding how governments should behave in order to avoid the pitfalls that are inherently associated with representative democracy.

If we had to choose only one among our many important conclusions, we would say without any reservation that this has to do with the cost citizens absorb by granting sovereign rights to agents (i.e. the politicians) to decide on their behalf in vital issues of democracy. This cost is so high that citizens in all democracies may be expected eventually to act so that representative democracy converges to direct democracy through the processes explained in Chap. 8. Our hope is that this will happen sooner rather than later with the help of the revolutionary changes in the scientific fields we mention. But until the political systems are forced to reform in this direction, the key for citizens in democracies to regain control of their future is a return to a substantive separation of powers, i.e. the dispersion of political and financial decision making to as many independent centres as is wisely possible.

This book constitutes a natural extension of our research in recent years into the nature of the relationship between institutions and economic development, with a focus on classical Greece. Initially, we aimed to present a limited comparative generalisation with reference to more recent experiences. But we fell into the usual trap, where one important issue leads to another more important issue, and it took us 3 years until the Greek edition of our book was published late in 2011. Then, as if this delay were not agonising enough, there happened the unexpected. Anastasios, my beloved friend, colleague and co-author in several publications over many years, died suddenly in early 2012 and all the burdens for the present edition of the book fell on my shoulders. This explains why I bear full responsibility for the quality of the translation and why it gives me great pleasure to thank Maria Choupres for her precious assistance in this regard. Also, many friends and colleagues were kind enough to read several chapters and provide us with constructive comments. I thank them all, particularly for their warnings about the difficulty and the risks we faced. Among them Dimitri Vayianos, Stavros Drakopoulos, Nickolaos Kyriazis, George Economou, George Tridimas and Costas Christidis offered us assistance and advice beyond the limits that friendship and collegiate solidarity would call for. I am grateful for their help and absolve them from any responsibility for errors or deficiencies in the text.

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