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Athens makes high stakes bet on ballot

The fact that both stock markets and his European colleagues have reacted with horror to George Papandreou's pledge to hold a referendum on the latest rescue deal for Greece is not, in itself, proof that the Greek prime minister has blundered. Months of popular protests are ample proof that the Greek population is having trouble swallowing the bitter medicine that the European Union has prescribed.

The Greek government and the European project are suffering from a crisis of legitimacy. A popular vote on the package might allow the Greek people to believe that they are not merely bystanders and victims in the crisis.

That said, Mr Papandreou's sudden pledge to hold a referendum is a mistake. The Greek people deserve to have their say on the crisis. But a better way of fostering public debate would be to hold an election.

The reasons that a Greek election would be preferable to a referendum are to do with the nature of referenda and the current crisis. In a democracy, policy questions are best decided by elected representatives. Referenda are appropriate when the constitutional order is being changed. Constitutions set the rules of the game for generations to come. Elected politicians are also part of the constitutional order – and therefore not best placed to decide impartially on its structure. Direct democracy makes sense in such a situation.

The Greek rescue, however, is a policy question. Of course, the policies involved have constitutional implications, since they arguably involve a loss of national sovereignty. But, if the rescue works, this will be temporary. If there are proposals for a permanent transfer of sovereignty, through a new European constitutional order, then a referendum would be justified. Until then, managing the Greek debt crisis is a question for the Greek government – not for a popular plebiscite.

A Greek referendum also risks discouraging serious debate about the options facing the country. A simple No, without a clear alternative spelt out, would in effect be a vote for a disorderly Greek default – which could make the average Greek citizen's situation far worse. By contrast, an election would force the Greek opposition to say what it would do differently. If the New Democracy opposition won, they would then have to take responsibility for governing.

Yet the truth is that neither an election nor a referendum is ideal right now. Further complications in the Greek situation will only create new delays in an already too tardy rescue package, which is as crucial to the stability of the eurozone as to Greece itself.

The results of any vote are liable to be disorderly and chaotic for Greece. But they could equally be disastrous for Europe. Contagion is already spreading as shown by Tuesday's sharp rise in Italian bond yields. The eurozone has had two years to create a sanitary cordon around Greece's public finances and has so far failed to do so convincingly. It must act now. Soon it will be too late.

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