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The Conundrum

by Nigel Feetham

We have become accustomed to thinking of democracy as an integral, indeed permanent, part of modern society. Life without our democratic institutions is unthinkable. Yet in historical terms democracy is a relatively recent ideology. If our social history spans back around 5,000 years, absent the relatively brief period of Athenian democracy, Western-style democracy as we know it today has only been in existence for less than one hundred years. Still, we have every reason to take pride in our democratic credentials - elections for local and national governments and assemblies are the bedrock of civilised society.

There's no turning back the clock...

At its simplest, democracy is the right of all citizens (not otherwise disenfranchised e.g. persons serving prison sentence), to take part in the process of voting for their elected representatives. This entails a system (free of intimidation or threats of violence) where the will of the majority prevails over the minority. It is, in essence, a numbers game. Constitutional and legal safeguards are then intended to ensure that the rights of minorities are respected and not trampled upon. Without doubt, democracy is the best socio-political model in existence, even if it is not perfect. No one else has come up with anything better. It is certainly no co-incidence that the greatest advancements in education, social welfare, equal opportunities, and in the economic front have taken place under democracy. Equally and certainly judged by modern standards, great injustices have been suffered throughout our history whenever wealth and power have been concentrated in the hands of democratically unaccountable individuals or institutions. Whilst there is no turning back the clock of democracy, the strain on the clockwork is nevertheless beginning to show. This is especially so since the global financial crisis of 2007 when governments around the world had to bail out financial institutions at very considerable cost to local exchequers. Governments have done this by a combination of astronomical levels of borrowing, printing money and pumping it into the financial system like never before and trying to

introduce austerity measures (such as cuts in social welfare) to balance the books.

Of course, even with the levels of public debt prior to the banking crisis resulting from decades of economic mismanagement, it was already near-impossible for most governments to balance their books in any meaningful way. Indeed, where public expenditure exceeds revenue, governments really have little room for manoeuvre left. The conundrum, however, is that governments are elected for, and generally political parties around the world owe their political existence to, 4 year cycles where they compete for expensive electoral promises in return for votes, whether they are affordable or not. The recent experience in Greece confirms the grim reality that electorates do not vote for austerity when countries are in bankruptcy. Spain may soon be heading in the same direction. Whilst the larger economies with a stronger economic base may be outside the immediate danger zone, the underlying concern remains the same - can the current political system survive, and what are the conceivable consequences of no change?

"How did you go bankrupt? Two ways. Gradually, then suddenly." (Ernest Hemingway, *The Sun Also Rises*).

It is not difficult to see how in an extreme stress situation the current political system could collapse. When a country gets itself into a deep economic mess, the electorate faces two stark choices - accepting cuts in the public expenditure they have come to expect and take for granted, or simply delaying the inevitable. When creditors are unwilling to extend or renew credit and when governments default paying their national debt, that is when the whole system often breaks down. As long as countries are not too big to be bailed out (and provided there is the international will to do so as has until now been the case eg Ireland, Greece, Spain and Portugal), the current situation will continue, although we must begin to question how long for. The threat to the global economy will come if one or more of the larger countries collapse under the burden of their own public debt and debt funded public expenditure. The instability that this would cause would not just be limited to these countries, but would be a vicious circle that could threaten to spiral out of control beyond national boundaries

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in the same way as would have happened had US and Western European banks been allowed to collapse in 2007. The problem is that bailing out banks is one thing, whilst bailing out large economies is quite another. For how long (if at all) could the US bail out the Western economies of France and the UK, for example, if they ever collapsed especially given its own mountain of public debt? And what countries would follow (or indeed collapse before they did) in a domino effect similar to the global banking crisis when the demise of AIG threatened to also bring down almost every other international bank in the US and Continental Europe?

If the people that vote for governments and the political classes themselves do not embrace change, mankind could be destined for a very bleak future indeed. We may see a breakdown in social order as governments face bankruptcy and what could then follow would be a calamity on the historical scale of human disasters. Government services would come to a grinding halt if public servants are not paid their wages. The knock-on effect to the wider economy would be significant; unemployment would rise and we would see a return to the days of the Great Depression or much worse. If the history of the 20th century showed us anything it must be that without the economic collapse of Germany in the 1920's Hitler would have been a minor actor in the European stage, eighty million lives will have been saved and communism under the old Soviet Union would have collapsed decades before it eventually did. Of course, the big difference between the 1920's and now is that people's expectations are much higher and therefore change that much more difficult.

Themistocles hits the jackpot (not quite)

If domestic economies face bankruptcy, with the consequential threats to social order, our democratic institutions and our current way of life might not survive. It is an apocalyptic scenario that we would not want to think about and which fortunately I believe is unlikely to happen in my own lifetime, but which, as a matter of simple probability, is not entirely inconceivable. Our politicians therefore have a civic duty to think beyond their own political longevity. It is not an impossibility and certainly there are historical examples (albeit perhaps not many) of politicians putting the national interest before their own narrow party political interests. Ancient Athens in the 5th century BC was the cradle of democracy but this would have been very short-lived had its citizens not rallied behind one of the greatest politicians and generals of the ancient world - Themistocles. Greece at this time was no more than a collection of warring city states. When the mighty Persian Empire invaded Greece under King Xerxes it may have appeared to contemporaries as it would have done to our forefathers when Germany invaded Poland in 1939. Athens was a small city whose walls were no match for the mighty Persian army. Fortunately for Athens and the rest of Greece (if not the known world), three years earlier Athens discovered huge

deposits of silver and a debate ensued as to how the city would spend its new-found wealth. The popular view was that the windfall should be divided among its citizens to spend as each saw fit. How things never change! Themistocles, however, sensing the imminent Persian threat, argued vigorously that Athens should build 200 war ships. The debate could not have been an easy one for Themistocles to win but win he did. Athens got its navy and when the Persians invaded they were decisively defeated at the sea Battle of Salamis and its large land army was left without re-provisioning by sea. The Persian will to fight this war faded and the Spartans, together with their Greek allies, put a final end to it when what remained of the Persian army on Greek soil was destroyed at the Battle of Plataea.

Corporate v State Governance: why the difference?

Of course, the future is not necessarily bleak. Ireland has proved that countries can be brought back from the brink if political parties do not compete for votes on the back of unaffordable electoral promises. Equally, Germany achieved global economic supremacy despite two world wars that would have completely destroyed any other nation. The challenge is to hold the global financial stability together when the populace's expectation exceeds what their elected governments are realistically, or actually, able to deliver. Finally, it is interesting to note the significant contrast between legal requirements around the governance of companies (especially those operating in the public and regulated markets) and the governance of countries. When a company finds itself in financial difficulty the law and regulators alike impose strict levels of responsibility on directors and management. This can often lead to serious action being taken against those concerned, including the imposition of hefty fines and penalties and in extreme cases being barred from holding similar office again and even personal liability to compensate creditors. Further, the standards of governance expected in the management of financial institutions are high and those who occupy positions of influence and responsibility require prior regulatory approval in respect of their fitness and propriety. In contrast, politicians can occupy high public office with few (if any) qualifications, are not required to apply the same standards of governance that regulators expect of senior executives, they can in effect run the country into the ground and still bear no legal responsibility whatsoever for their incompetence, all at the expense of present and future taxpayers. That does not make sense.

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