

GREEK SOVEREIGN DEFAULTS IN RETROSPECT AND PROSPECT¹

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Abstract

This article focuses on and critically reviews the four Greek sovereign defaults (1827, 1843, 1893 and 1932) and puts them into historical perspective. The argument is that each and every one of the defaults was not an isolated episode in the turbulent economic history of capitalism, but, rather, a manifestation of the internal weaknesses of the Greek economy magnified during the downturn phases of the 1815-1848, 1873-1896, and 1921-1940 long waves. Crucial for understanding the conditions that triggered these defaults were the short-sighted and often opportunistic policies adopted by the Greek governments of the time, which were eager to increase public spending based on borrowed money, thus contributing to a mounting public debt. As a consequence, Greek sovereign defaults of the past are worth studying in an effort to derive useful lessons and draw economic policy conclusions.

JEL Classification: B50, F34, N13, N14, N24

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1. Introduction

This article focuses on a critical review of Greek sovereign defaults that occurred following the 1821-1827 War of Independence against the Ottoman Empire. The main thesis of the paper is that, from the very beginning, the Greek economy was well integrated into the world economic system as this can be inferred by a) its heavy borrowing even before the creation of the official national state, b) the size of the foreign sector of the economy, c) the fluctuations in exchange rates, d) the entrance to monetary unions (such as, for example, the Latin Monetary Union), e) the international character of the country's shipping along with the financial sectors of the economy². By virtue of its small size, relative to its major trading partners, Greece was affected to a greater extent by the ebbs and flows of world economic activity. Generally speaking, during their expansion stage, smaller economies may benefit, but, in cases of world economy's contraction, weak economies may suffer the most, as they become even more default-prone. The four default instances of Greece teach important lessons and also help us think of economic tools that can be utilized to ameliorate, if not prevent such a dismal state of affairs for the public benefit. Furthermore, we will argue that all serious past economic downturns of long waves of economic activity, during the 1815-1848, 1873-1896 and 1920-1940 periods, led the Greek economy to sovereign defaults; nevertheless, these defaults soon activated economic forces and led to the implementation of policies which facilitated the economy's vigorous recovery. This is particularly true in the defaults of 1893 and 1932, which we study more closely. The first two defaults were significant in their own right, but the lack of adequate data makes us focus more on the 1893 and 1932 defaults and their aftermath period. It is important to stress, at this point, that the slowdown in the economic activity in the 1970s and 1980s, that is, during the so-called silent depression, also led the Greek economy to the verge of default. The same is true about the Great Recession that started in 2007 and nearly led the economy to a certain default which was typically avoided, up until the writing of this paper, mainly as a result of the European Union's intervention and financial support.

A typical long wave in economic activity bears the following features, which may explain the higher frequency of debt defaults in down phases, especially when it comes to weaker economies. More particularly, in the upswing phase, the world economic activity is characterized by rising profitability, which encourages investment and builds up increasingly higher volumes of fixed capital stock. The latter, past a certain point, lead to diminishing returns on new investment, thereby discouraging investment spending. Under these circumstances, the financial sector of the economy, in its effort to recover its old loans (the major output of the finance

2. See for instance, Lazaretou (2005), Tsoulfidis (2015), ch. 10 and the literature cited there.

industry) is bound to “sell” new ones along with other financial products. However, new loans require the expansion of economic activity in the real economy, which may become possible through lower real interest rates and softening of lending standards. Under these circumstances, the financial sector of the economy expects to compensate for the lower real interest rates by expanding the amounts of new loans to exceptional highs. This is the time when financial bubbles build-up and when they burst, this indicates the end of the rising phase of the long cycle. Meanwhile, lesser developed and weaker economies would like to massively borrow in the international markets so as to take advantage of the lower real interest rates and, in so doing, to make up for losses in tax revenues and foreign reserves due to the slowdown of economic activity, thereby falling increasingly behind their inelastic and, perhaps, rising non-productive government expenditure. The reasons for such a widening gap between tax revenues and government expenditure might be the usual promises by political elites to their voters concerning standards of living converging with those of consumers in richer countries, thereby increasing consumption expenditure and imports of luxuries. The gap may also include conjectural, but truly serious reasons, such as rising defense expenditure in anticipation (or prevention) of wars or even actual wars and their aftermath. Excessive borrowing, however, leads to rising, and eventually unsustainable, sovereign debt. International lenders, in their incessant effort to acquire profits in cahoots with the local governments, end up producing, in a prisoners’ dilemma-like manner, the worst outcome for all, that is, sovereign default. Each of the defaulted countries, of course, leaves its own imprint on the post-industrial revolution economic history of sovereign defaults; the four Greek defaults that we are about to discuss, despite their idiosyncratic characteristics, follow the sequence of events typically associated with weaker economies during long downturns of international economic activity.

The remainder of the paper is structured as follows: Section Two briefly deals with the 1827 and 1843 defaults. Section Three discusses the default of 1893. Section Four deals with the default of 1932. Section Five summarizes and makes some concluding remarks with regard to the situation in the late 1980s, as well as the current predicament of the Greek economy.

2. The First Two Defaults, 1827 and 1843

During the Greek War of Independence against the Ottoman Rule (1821-1827), the “interim government” received two international loans of 2.8 million pounds through the London market, in 1824 and 1825, in order to finance the War. In his classical study, Andreades (1904, p.90) wrote that the loans were given at very high discount rates (nearly 55 and 59 percent of the face value of bonds) and only twenty percent of the loans were, in fact, received (G. Dertilis 2006, p.117). Furthermore, Finlay reported that “the first sums, which arrived from England in 1824, were absorbed

by arrears due on private and public debts” and that the remaining funds were distributed among the different fractions of warlords and quickly vanished (Finlay 1861, vol.2, pp. 38-41). The interim Greek government was not in a position to pay back the annuities, due to lack of sufficient public revenues, and declared a default two years later. International interest in the outcome of the Greek Revolution was also concerned about the money lent to the interim Greek government. Not incidentally, only a few months after the default, the allied fleet of England, France and Russia destroyed the Ottoman armada at the naval battle of Navarino (20/10/1827). In the London Protocol of February 1830, the Greek Government agreed to pay back the two loans as a prerequisite condition for the independence of the New Greek State to be recognized by the Allies. Additionally, national lands were offered as a collateral warranty.

The protocol of 1830 was again amended in the London Convention of May 1832, which established the borders of Greece that became a sovereign kingdom. The first-king was the young Bavarian prince Otto, whose arrival was accompanied by a new loan of 60 million golden French francs under the tutelage of three great powers (the UK, France and Russia). Most of the money borrowed, however, was spent for the payments of the old loans and only 2.7 million French francs, out of the 40 million actually received, were invested in providing infrastructure for the new state (G. Dertilis 2006, p. 123). Given the world depression of 1815-1848 (downturn phase of the first Kondratiev long wave) and the dismal economic situation in Greece, especially in the 1840s, and also taking into account that Greece did not receive the third installment of the 60 million loan, it was not surprising that after the failure of the Greek government to meet its obligations for three consecutive years, Otto declared a second sovereign default in September 1843. As a consequence, Greece remained out of the financial markets for the next 35 years (cf. Reinhart and Rogoff 2011, pp. 1678-9). Private foreign debtors pressed their governments to utilize every possible means to make Greece start repaying its international debt obligations. The military occupation of the port of Piraeus, from 1854 to 1857, by French and English naval forces during and after the Crimean War, was followed by the imposition of a Memorandum (of Understanding) containing a detailed list of policy measures forcing Greece to meet its debt obligations. In addition, foreign Governments placed their representatives into key Greek Ministries in order to ensure effective implementation of the agreements. It is important to emphasize that not only Greece, but also a host of other countries, including almost all countries in Latin America, defaulted during the recessionary phase of the first long wave.

The austerity measures taken in July 1843 bear striking similarities to those of the three recent European Stability Mechanism programs in Greece. Thus, one-third of public employees were laid off, while those who kept their jobs were forced to accept a salary cut of 20 percent. Pensions were no longer paid, although the few

pensioners were mainly military people and other public employees. The government also reduced its military expenditure and its public investment. Taxation was increased, especially tariffs on imports. Further measures included pardoning illegal constructions, which could be legalized by paying a certain amount of money and the same measure was applied in cases of occupiers of public lands who, thus, could acquire ownership. Moreover, the government, in order to maximize its tax revenues, decided that people's past tax obligations would be paid only to a fraction of total payments due. The economic situation combined with the absolute rule exercised by the Monarchy led to the creation of a popular front asking for a Constitution, which was granted on September 3, 1843.

Finally, Otto was forced to resign in 1862. He was replaced by the Danish Prince George who was endowed with the Ionian Islands; he was also given a "haircut" of 300,000 French francs on the loan of 1832, as an advance against future royal expenses. Despite these dramatic changes, Greece remained a failed state which stayed outside the international financial markets for quite a long time.

3. The Depression of 1873-1896 and the third Greek sovereign default

During the 1873-1896 period, the world economy underwent a "long depression". This was reflected in falling prices, falling interest rates, and profit rates and also in rising unemployment rates, which were well above the ten percent benchmark in the US economy that signifies the transition from a recession to a depression (Heilbroner 1993). As Hobsbawm (1994) argues, this crisis encompassed the world economy and corresponds to the downturn phase of the second Kondratiev long wave of 1848-1896. The salient feature of this downturn phase was its long duration and the fact that it was not deep enough to create massive business failure and lasting unemployment. If only this was true, the conditions of profitability would have been restored by the devaluation of fixed capital resulting from large-scale innovations and the significant fall in real wages as a result of rising unemployment. The long depression was not as deep as that of 1815-1848, although it was more international; it most likely started in the advanced economies and soon spread to the rest of the capitalist world economies.

A dramatic consequence of the 1873-96 depression was the decline of the volume of international trade, as a result of the imposition of protectionist measures taken by most countries. Except for Britain, Denmark and the Netherlands, which kept their import duties low, no other advanced economy remained faithful to laissez-faire policies after 1879 (Graff et al. 2014, p.75). The Greek exporting sector, for the most part of the depression, was favorably affected, because it was almost exclusively based on a single exporting product (the Corinthian currants) whose international demand was rising for purely conjectural reasons. In particular, the attack of French vines by *Phylloxera* infection, between 1867 and 1889 (Hobsbawm 1987, p.36). The rest of the

traditional farming sector, as well as the infant Greek industry, were not affected in any serious way for reasons that have to do with the nature of a small rural economy without any strong domestic or international connections. This was not true for the financial sector of the economy, which was continually under pressure to serve the monetary needs of a State running deficits and pumping money into the economy, thus creating inflationary pressures or taxing and impoverishing people. By the end of 1885, Greece was, once again, undertaking war preparations, and, therefore, it ran budget deficits with its monetary policy completely out of control. Thus, though Greece managed to stay on the gold standard for nearly nine months in the year 1885, from the end of that year onwards, the country was forced to run large budget deficits, thereby accumulating a huge public debt (see Figure 1).

Strange as it may seem, the Prime Minister Harilaos Trikoupis, during his seven (non-consecutive) mandates from 1875 to 1895, and despite his liberal beliefs in the classical economic theory of minimal government interference in the economy, ruled that liberalism could only be effective once the country attained a sufficiently high level of economic development. This is the reason why he did not hesitate to apply active government policies and particularly effective demand policies many years prior to the establishment of this principle by Keynes (1936). Trikoupis' idea was that one needs to initiate the conditions that will lead to economic growth first, which, in the absence of a strong private sector, can only come via major Government intervention to provide the necessary support to market forces. Once the market forces become strong enough, the Government's role should return to its usual minimal functions (protection, distributive justice and provision of money). Economic growth required the creation of large-scale infrastructure investment projects (road and railway networks, harbors, land reclamation works and the like) and, also, tax reforms and the reorganization of the state and the army. This unquestionably ambitious program was mainly financed through international loans. Such financing was much easier than one would think mainly for two reasons. Firstly, the Greek government in those years and under Trikoupis' leadership appeared to be more reliable than ever, and, secondly, as a result of the Long Depression of 1873-1896, there was a great deal of dormant international liquid capital in search of profitable opportunities. Thus, the somewhat higher interest rates offered by the Greek government were lucrative enough for European bankers, who were eager to provide the necessary financing to the Greek government.

The idea behind these policies is that investment spending on infrastructure with borrowed money, in conditions of underutilization of capacity, will increase both employment and incomes and, with these, future taxes (Tsoulfidis 2010, ch. 10). So the government will be able to redeem its debt, keeping all the benefits resulting from the use of the infrastructure. It comes as no surprise that, during those years, Greece experienced a slowdown in economic activity coupled with inflationary pressures similar

to those experienced by OECD countries a century later during the silent depression of the 1970s and 1980s. Trikoupis was, we dare say, an “unconscious Keynesian”, whose economic policies moderated the negative outcomes of the international Depression. Trikoupis was fully aware of the limits of the model of an exporting, single-sector, agricultural economy with currants being the major exporting product, and he tried to strengthen the industrial sector in an effort to create domestic demand. He, therefore, planned a long-term policy of major reforms and public investment projects in order to sustain economic development. In fact, public investment in 1890 grew to 28% of total public spending, excluding annual debt spending (G. Dertilis 2006, pp. 675-6; Tsoulfidis 2015, ch.8 and the literature cited there). In an effort to finance his ambitious public expenditure plans, mainly concerning modern infrastructure (railroads, harbors and the Corinth canal), Trikoupis completely reformed the taxation system in Greece. In particular, he abolished the tithe on agricultural production because he considered it a feudal relic and increased the general rates on tariffs and indirect taxes. Thus, while before Trikoupis, in 1871, indirect taxation had represented 53.9 percent of total tax revenues, corresponding to 4.8 percent of GDP, twelve years later, indirect taxation increased to 74.3 percent of total tax revenues and 8.7 percent of the Greek GDP (G. Dertilis 2006 pp. 714 and 722; Tsoulfidis 2015, pp. 206-7).³ At the same time, Trikoupis made valiant efforts to attract entrepreneurs from the Greek Diaspora; in fact, he managed to do that without any pre-requisite conditions. As a result, most Greek entrepreneurs invested in banking and real estate sectors of the Greek economy and, unfortunately, not in manufacturing or other production activities.

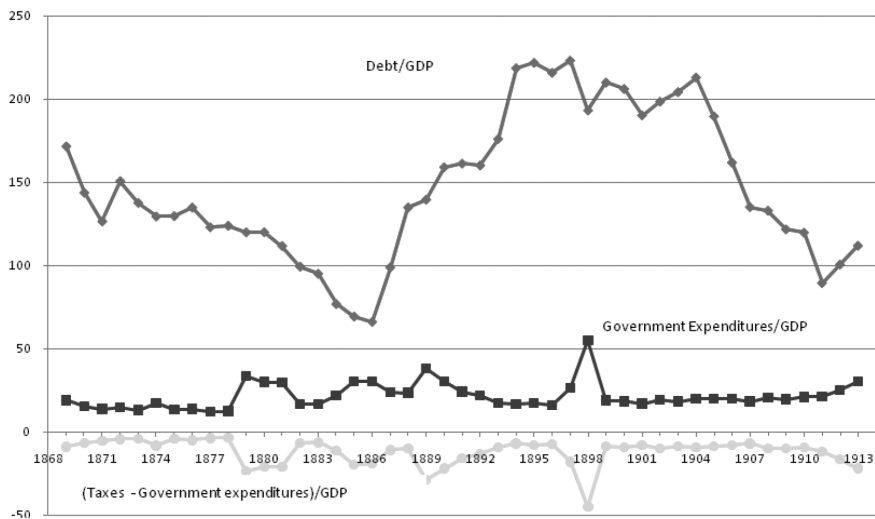
In light of the above, it became a necessity to find foreign financing and Greek political leaders worked very hard to obtain the fourth loan in 1879, which amounted to 60 million French golden francs. Andreades (1904, p. 111) wrote that, in order to receive the loan, Greece was threaten by Chancellor Bismarck not to ratify the Treaty of Berlin (1878) concerning the annexation of Thessaly and part of Epirus to Greece. A prerequisite condition for the ratification of the Treaty was that the German lenders would be repaid for the loan of 1832. Additionally, all individual investors who bought Greek bonds on the secondary market at a pittance (namely, 5 percent of their nominal value) had to be repaid. The Greek administration, as others before and after it, faced the same harsh dilemma: there are only few lenders in the world financial markets and they lend out their money collectively. Thus, when a government is in need of financing, then new loans may be granted if, and only if, all previous loans have been fully served, including whatever interests have accumulated in the meantime. The new loans, by and large, carry higher interest rates than those to other, safe borrowers for obvious reasons. Under these conditions, Greece borrowed

3. See also Lazaretou, 2015 for similar estimates.

639.7 million French francs from abroad, thus increasing the external debt of the country by nearly seven times. Yet, less than 20% of these relatively large amounts of money were finally invested in productive uses, since a great deal of it was used to pay annual obligations of past loans (Tsoulfidis 2015, pp. 204-205).

The ongoing world economic crisis unfolding after 1873 did not leave the Greek economy unaffected as exports of currants collapsed in 1890, together with foreign exchange reserves. The result was that the government had no adequate foreign reserves to redeem its huge annual debt obligations to its lenders. Trikoupis made an international effort to get new loans, but in vain, and in December 1893 he declared the country defaulted, in spite of the fact that the annual primary deficit (taxes minus government expenditure) to GDP, in Figure 1, declined from the previous trough of -28 percent to less than -10 percent in 1893, and the ratio of public debt to GDP came to 175 percent and remained much higher until the year 1905, as shown in Figure 1 below. Hence, the collapse of the leading Greek export-oriented sector of the nineteenth century, the currant, might bear a great deal of the responsibility for the lack of adequate foreign reserves, which could have been used to pay back international loans, thereby triggering sovereign default. It should be pointed out that what forces weaker economies to declare sovereign defaults is external rather than, necessarily, domestic public debt (see also Reinhart and Trebesch, 2015).

Figure 1. Public debt, government expenditure, and primary deficit as a percentage of the GDP, 1869-1913⁴



4. The data for the primary deficit comes from Lazaretou (2015), whereas public debt data comes from Reinhart and Rogoff (2011) and the GDP from Kostelenos *et al.* (2007).

Economic policy measures taken immediately after defaulting included payments of interest to foreign lenders at 30 percent. They excluded domestic bondholders, mainly the Greek banks. In the negotiations with foreign lenders in Paris, in 1896, what is nowadays known as a Private Sector Involvement (PSI) was attempted. The Greek side proposed a “haircut” of interest payments at 40 percent of loans and the capitalization of one part of revenues from the government-owned monopolies, such as tobacco, to foreign lenders. Negotiations failed because of excessive demands by the lenders, who asked their respective governments to apply pressure on the Greek government for full repayment of the country’s loans.

It has been argued that the War of 1897 between Greece and the Ottoman Empire was prompted, in one way or another, by the lender countries. The latter did not need to try hard to achieve such a goal, because during those turbulent years and with the question of Crete gaining autonomy from the Ottoman Empire open, many “hyper-patriotic” individuals were acting so as to increase tensions in the borders between the two countries. The reasons for frictions were always there and the 31 days’ war found the Ottoman troops on their way to Athens. The Greek government asked the lending countries for help. They were more than willing to offer their “good services” immediately. Hostilities ceased at once, and Greece came out of the war almost without territorial losses, but with a humiliating war indemnity to the Ottoman Empire added to its existing obligations. Finally, Greece received yet another humiliation, namely, the presence of an International Financial Commission (IFC) the members of which were representatives of Britain, France, Germany, Austria, Russia and Italy. The word “commission” is rather a euphemism, because the IFC extended its jurisdiction from the management of all taxation to the way in which the Greek government conducted its monetary policy. Despite these heavy measures, the Greek economy managed to recover quickly. Within the next fourteen years (1898-1911), the real Greek GDP grew annually at 3.8 percent and the Greek drachma became once again a strong currency; in effect, in the year 1910, it attained parity with the French franc, which was the currency of international transactions (Tsoulfidis 2015, p. 234).⁵ The IFC formally remained in Greece until after World War II, and, although replaced by the Monetary Committee of 1946, the IFC formally expired in 1977!

5. The annual average growth rate is estimated as the natural logarithm of the ratio of two GDPs divided by the number of years. GDP data in constant 1914 prices is available in Kostelenos *et al.* (2007) also reproduced in SEEMHN (2014).

4. The Great Depression of the 1930s and the fourth Greek Default

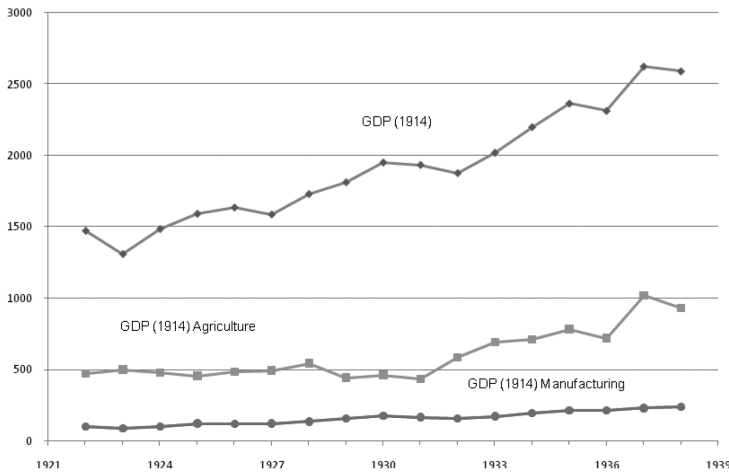
The crisis of the 1930s was an unprecedented overproduction crisis: the global economic system produced far more commodities than it was able to absorb. Public overspending during World War I, huge Europeans' external debts to the US, collapse of international agricultural prices, as well as the crash in the New York Stock Exchange were serious but only secondary effects compared to the failure of the system to cope with rising productivity in the first quarter of the twentieth century (Graff et al. 2014, p. 207). The downturn spiral after 1929 led to the following chain of events: falling prices; rising bankruptcies; falling industrial production; increasing bank default rates; growing unemployment and expanding social misery. Moreover, the hitherto most severe economic crisis on record brought on totalitarian regimes throughout Europe and paved the way for the devastating Second World War (Hobsbawm 1994, pp. 145 ff.).

The consequences of the Great Depression were not equally distributed among capitalist countries: they were much worse in the USA, Austria, Germany and France, where negative growth rates in the real GDP ranged between 20% and 30% from 1929 to 1938. In Great Britain, Belgium and the Netherlands consequences were not as severe and they were of a minor character in Greece, where the growth rate of the real GDP was negative only for the years 1931 (-0.87%) and 1932 (-2.96%); after 1933 it rebounded to positive average growth rates of 5.6% for the remaining years (see Figure 2 below). The crisis reached Greece mainly through the slow-down in international demand for its chief agricultural products, mainly currants and tobacco (which represented almost 10% of the GDP and 70% of the value of the country's exports). Money transfers by Greek emigrants and sailors also decreased dramatically. Our estimates show that in 1930 remittances were 10.1% of the GDP, but dropped to 4.4% in 1932 and even further thereafter with obvious consequences for the country's ability to pay for imports and its external debt. On the whole, however, we conclude that during the crucial depression years of 1929-1932, Greece did not suffer such dramatic consequences in terms of output and employment as other countries in Europe. In particular, its manufacturing production in 1932 was, on average, somewhat higher than that of 1929. However, this is not true, if we consider every single branch of the manufacturing world, nor if one looks at the Greek economy as a whole (Tsoulfidis 2015, 285-6). The good performance of many manufacturing sectors had to do with the government's industrial policy and the low wages, a result of the surplus labor force following the Asia-Minor expedition disaster in 1922 and the arrival of 1.23 million Greek refugees.

In brief, the crisis had an asymmetrical effect on different sectors of the Greek economy. Average agricultural production grew during the 1922-1928 period and experienced a significant fall between 1929 and 1932, i.e. the worst years of the great depression (see Figure 2). Furthermore, even if official statistics underestimate unemployment, at its worse it tripled between 1928 and 1932, but remained rather

low at 8.6 percent (Tsoulfidis 2015, p. 275)⁶. Furthermore, unemployment was intensified for specific reasons, such as the new industrial organization in the textile and tobacco industries, the introduction of new mechanized processes and the replacement of skilled male labor by unskilled female labor. Thus, workers' income decreased, while the average income of city dwellers diminished only slightly (Tsoulfidis 2015, pp. 275-6). In Figure 2 we observe that real GDP remained stagnant in the 1922-1931 period. This is particularly true in the agricultural sector of the economy, the GDP of which reached a trough in 1931, the worst year for agricultural production. On the basis of available data, it becomes clear that during the worst years of the world economic crisis, i.e. 1929-1932, Greece was not affected as severely as many other countries. A few years prior to the collapse of the stock market, there had been systematic efforts to reform the Greek economy through new institutions, such as the establishment of the central Bank of Greece, and, also, through specific policy measures aiming at the protection of domestic production and monetary stability (inflation and exchange rates), which contributed to the expansion of domestic production and, in particular, agricultural, which within the 1931-1937 period doubled its production aspiring to make Greece self-dependent. Taking the full 1929-1938 period into account, agricultural production increased at an annual rate of 8.24 percent, while total economy increased at an annual growth rate of 3.96 percent (Tsoulfidis 2015, p.273).

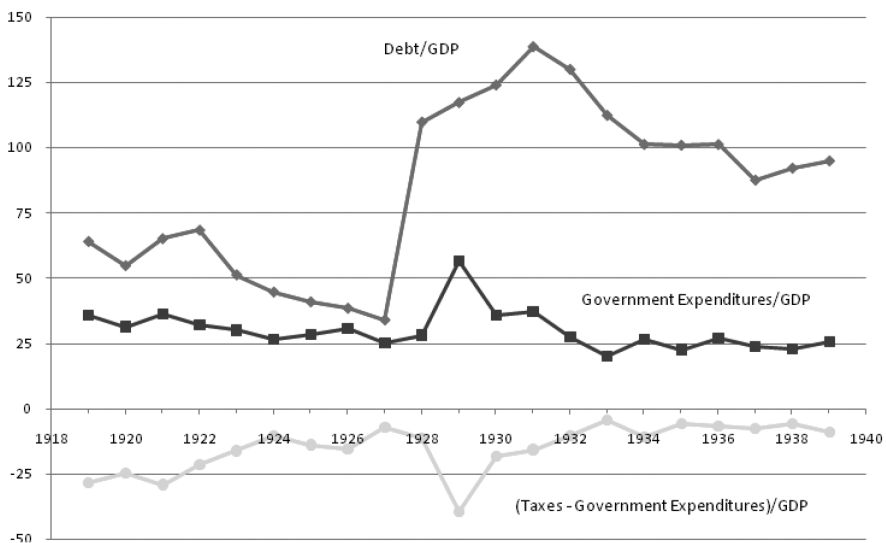
Figure 2. GDP of the Greek Economy, total and sectoral, 1922-1938



6. Extreme caution should be exercised when interpreting such percentage rates. First, because, although the number of the unemployed more than tripled in 1932, as compared to 1928, these were estimated against the civilian population and not against the labor force. Second, the population in Greece was mainly agricultural; as a result, unemployment statistics figures do not convey the exact same meaning they do nowadays.

This kind of policies, in an international climate of credit relaxation, allowed the Venizelos' government to borrow in international markets and to finance its ambitious plan of public infrastructure investment. The main idea was that revenues expected from investment would allow future settlement of the debt accumulating to dangerous proportions. The burden of annual debt obligations is displayed in Figure 3 below along with government expenditure and budget deficit or surplus, both expressed as percentages of the GDP. Debt size plays an important role in the way a country effectively responds to its international obligations. However, in the event of a recession, when the exports of a country sink, foreign exchange reserves available remain too short for settling the debt. Consequently, the government has no other option, but to search for new loans, otherwise, defaulting becomes inevitable (Reinhart and Trebesch, 2015).

Figure 3. Public Debt, Government Expenditure, and Primary Deficit as a percentage of the GDP, 1919-1939



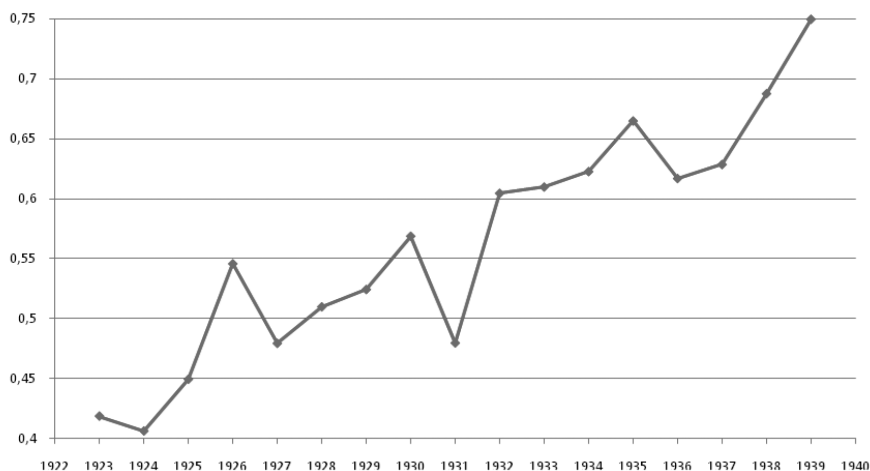
The data for public debt comes from Reinhart and Rogoff (2011) and are quite similar to those reported by Mazower (2002, p. 397), at least for the crucial 1928-1936 period. Data on taxes and government expenditure were taken from Lazaretou (2015). Finally, GDP data come from Kostelenos et al. (2007); as for the year 1936, data on taxes were missing, so primary surplus to GDP ratio was estimated by taking the average of years 1935 and 1937.

The Depression of 1929 literally led to a breakdown of the international financial system and made it impossible for the Greek public debt to be refinanced. Venizelos, in the first three months of 1932, visited Rome, Paris, and London in a futile effort to find the support he needed from the allied governments and the League of Nations to mediate for new loans. In other words, Venizelos remained trapped in his “hard drachma” doctrine keeping the national currency fixed and pegged to the Gold exchange standard with grave consequences exacerbating the depression and the ability to service public debt. After the withdrawal of the British pound from the Gold Standard in 20/9/31, the Bank of Greece endorsed a Sisyphean effort of keeping the level of deposits in foreign exchange more or less stable. Despite the closure of Athens Stock Exchange, and the rise of interest rates from 9 to 12%, the outflow of money, foreign reserves and gold continued. Gold backing of drachma was reduced to less than 27% (from the desired minimum of 40%) within a few weeks in the beginning of 1932. Annual debt obligations rose to 70% of the government budget in April 1932 and no “haircut” was accepted by lenders. Venizelos had to take a number of strong monetary measures including bailing-out Greek creditors, refusing to pay back payments to external creditors, devaluating the drachma by nearly 60%, withdrawing the national currency from the international markets and, finally, announcing sovereign default on 26/4/1932 (Psalidopoulos 1989, pp. 89-90, Lazaretou 2015). That was the fourth bankruptcy of the Greek State and its first in the twentieth century.

Greece reversed the outflow of money and in order to survive, which was followed by a policy of self-dependence encouraging the growth of domestic production. The recovery came quite early, but too late for Venizelos, who lost the elections in November 1932. Devaluation boosted the exports of tobacco and other agricultural goods. Moreover, the bail-in economized a significant amount of funds (about 10% of public spending) which was used for public works. The Opposition Populist Party followed a strong interventionist, nationalistic, and sectarian policy to amplify the social consequences of the crisis and counterbalance political upheavals. Within three years, from 1933 to 1936, such measures failed to prevent three military coups, three general elections, five different Governments and the disappearance of six major political leaders. In 1936, a fascist-like regime was installed to fill the political gap created by the failure of the ruling parties. Notwithstanding his authoritarian political program, Metaxas followed the same interventionist economic and social policy launched by Venizelos’ Finance Minister Varvaressos, maintaining some members of the previous political and financial establishment. Industrial protection was intensified: some 567 new factories were built, while the labor movement was crushed and its leaders persecuted. In 1937, Greece’s industrial production index (see Lazaretou 2015) stood at 79.1%, higher than in 1928! Agricultural production recovered thanks to ‘forgiving’ defaulted agricultural debts; it also enjoyed protection from foreign competition. As seen in Figure 3 above, agricultural GDP grew at an

annual rate of 7.8% between 1932 and 1938⁷. By 1935, Greek agricultural GDP met 78% of aggregate domestic demand. Things were also very positive for the exporting sector, which was based on trade clearings with a number of countries and, especially, with Germany, Greece's major trading partner.⁸ Figure 4 below shows that the ratio of exports to imports (both estimated at 1930 prices) kept increasing over the years, as a result of rising exports at a rate of 6.59% which by far exceeded the growth rate of imports, which was at least two times lower (2.95%) during the period examined.

Figure 4. Exports to imports ratio, 1923-1939⁹



5. Concluding Remarks

The study of Greek sovereign defaults reveals that they were not isolated episodes in the turbulent economic history of capitalism, but, rather, they took place during the downturn of world economic activity along with the defaults experienced in other countries. As we learn from the economic history of five long waves spanning a period of nearly two and a half centuries, sovereign defaults take place at a higher frequency during the downturns of long economic cycles. For instance, in the recent phase-change of the world economy that started at the end of 2007, we witnessed a number of diverse EU economies coming close to the verge of financial collapse.

7. Our estimates are based on data from Kostelenos et al. (2007) GDP data.

8. Greece exported tobacco and cigarettes to Germany in exchange for agricultural tools and military ammunition. Clearing trading agreements between countries were widespread during the late 1930s.

9. Data series from Lazaretou (2015), also SEEMHN (2014).

This was particularly the case with Spain and Italy, two supposedly large and strong economies, as well as Ireland, Portugal, and Greece, three countries with not so strong economies, which would have certainly defaulted, had there not been financial aid from other EU countries. As a result, the list of defaulted countries is not restricted to “the usual suspects” such as Argentina, Mexico and Balkan countries, but extends to include “countries above any suspicion” such as France, Germany, Russia, and China, among many others. It goes without saying that some countries of Africa, Asia, and Latin America may default without the world economy being necessarily in the depression stage of its long wave.

With this we do not mean to say that sovereign defaults are like natural phenomena created by global depression periods. On the contrary, we simply argue that sovereign defaults reveal the chronic problems and the structural weaknesses of an economy and the wrong economic policies which simply precipitate a country’s propensity to default. In the case of the four Greek defaults for the 1824-1939 period, it is worth noting that 70 percent of the loans were used for consumption purposes (including military ones) and of this 70 percent, 16 percent was used for issuance expenses. If we also take into account domestic loans, then the non-productive uses of total loans amount to 91 percent (Koulis 1968, p. 281). It is important to note that all domestic loans in the Post-WWII period were really ‘annulled’ by hyperinflation. The monetary reforms of November 1945 introduced the new drachma, which was set equal to 50 billion old drachmas. And the 16 billion prewar (public and private) debts literally evaporated because they were worth a fraction of their previous value in terms of the new drachma. Continuous budget surpluses in the 1950s and 1960s achieved the repayment of all the old foreign debts of Greece until the year 1968 or earlier. The total public debt of Greece as a percentage of its GDP ranged from 12.8 in the 1950s to 20.9 percent of the GDP in 1964 (P. Dertilis 1968, p. 219).

This situation changed by the end of the 1970s when public debt started its upward trend and by the end of the 1980s, Greece came very close to defaulting and remained in that critical state for the next few years. However, the conditions had already changed and the world economy entered a new phase of economic growth, the financial aid from the European Economic Community and the austerity measures that followed kept the public debt in a downward trend until 2001, when Greece became a member of the Eurozone. In the years that followed, public debt increased and became unmanageable with the onset of the Great Recession in 2007, which revealed the structural imbalances of the Greek economy and led to the imposition of the first Bailout packet in 2010. Although there was no official sovereign default of Greece following the rich terminology of defaults, we could call the failure of Greece to pay its loan obligations to the IMF in June 2015 an “excusable default”. However, as compared with the sovereign defaults of 1893 and 1932, we observe that the economic consequences of the post-2010 years have been by far more significant

in terms of losses in output, income and, worse of all, unprecedented unemployment rates. A sovereign default was officially avoided, as a result of the financial aid from EU countries and the IMF.

Internal economic problems due to everlasting structural inefficiencies of the Greek economy (tax evasion, a deficient pension system, low competitiveness) were created by incompetent political elites seeking to consolidate their power through a ‘clientele relationship’ with the electorate body. In this paper, we have argued that international fluctuations and crises are crucial factors for the onset of sovereign defaults. Instead of dealing with serious economic problems, aiming at more equitable income distribution through progressive taxation and the channeling of public (and, to a certain extent, private) expenditure towards infrastructure and productive investment in general, political elites resorted to the easy way of borrowing and spending, mainly on public consumption and other unproductive uses, which accumulated huge amounts of debt. Our historical exegesis has exposed the cardinal weakness of a State born in default that has evolved under permanent pressure by its creditors to modernize its institutional framework. Because of the characteristics of Greece described above and the slow evolution of its main economic institutions (land property rights, market regulation, business firms and labor unions, and the monetary and credit system, cf. Zouboulakis 2005), the Greek state is permanently within the risk zone of sovereign default. Although history repeats itself in a different manner, we endorse Hegel’s dictum “We learn from history that we do not learn from history”. The reason may be found in the secular economic-cum-political trends underpinning the phenomena observed.

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