Greek Bailouts in Historical Perspective: Comparative Case Studies, 1893 and 2010

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Abstract

The economic and financial history of Greece offers interesting insights into the current worldwide economic crisis. In the nineteenth, twentieth and twenty-first centuries, Greece went through a series of financial disasters due to external factors and to policies that failed to take fiscal stability into account, insofar as they relied heavily on foreign loans. These, in many cases, led to real bankruptcies. This article compares the attempted bailout by a British bank in 1893 with the salvage operation of 2010 that avoided the technical bankruptcy of Greece. Although the outcomes differed, owing to sharply different geopolitical and geo-economic contexts and to the amount of money committed to these financial operations, in both cases Greece relied on Europe to avoid impending financial disaster.

1. The birth of modern Greece and the first financial problems (1821-1878)

The history of modern Greece begins in 1821 with the start of the war of independence against the Ottoman Empire, which ended in 1832.[1] Risen from the ashes of an empire in decline, Greece with its war of independence aroused the liveliest admiration in Europe, thanks to a romantic folklore profoundly inspired

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[1] D. Dakin, *The Greek Struggle for Independence 1821-1833*, University of California Press, Berkeley/Los Angeles, 1973.

by the classics. The strategic role that Greece played in the geopolitical and geoeconomic vision of the British Empire led London to support it financially. The "grand idea" of making the Aegean into a Hellenic lake attracted the ruling class of this small country with big ambitions. Like other countries driven by the European nationalism of the nineteenth century, modern Greece fell into an abyss of debt in the effort to realize its aspirations, thanks to British support, Russian will and French benevolence. The first default, in 1826, did not ring the alarm bell for the Greek rulers.[2]

Despite an emergency loan in 1832, Greece was not able to fix its budget problems and remained in great financial uncertainty for half a century. During this troubled time, and following another financial crisis in 1843, the old creditors, led by Britain and France, repeatedly warned the Greek government to regulate its unsettled financial questions.[3] The opportunity for Britain and France to finally get full payment for the old financial instruments they held came naturally during the Crimean War (1853-1856). The benevolent behaviour of Greece towards Russia in its war with the two creditor powers prompted the latter to occupy the port of Piraeus in order to enforce the creditors' claims (also for military purposes). Greece had to pay the two powers; otherwise they would have intervened in the country's internal affairs to settle the old bond issues.

In 1856, the Treaty of Paris put an end to the hostilities. Russia, an old ally and guarantor of Greek independence, categorically opposed the British and French ultimatum – a stance influenced in part by the sensitivity of St. Petersburg to the Orthodox communities.[4]

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[2] Greece's default in 1826 was the direct consequence of war expenses. London favored the Greek rebellion and provided financial assistance to safeguard its commercial and political interests in the eastern Mediterranean. See J.A. Petropulos, *Politics and Statecraft in the Kingdom of Greece, 1833-1843*, Princeton University Press, Princeton, 1968, p. 45.
[3] The National Archives (NA), Foreign Office (FO), 881/2885, The Earl of Derby to Mr. Stuart, n. 24, confidential, London, 21 March 1876.
[4] W.H. Wynne, *State Insolvency and Foreign Bondholders*, vol. II, Yale University Press, New Haven, Conn., 1951, pp. 283-360. L.J. Frary, *Russia and the Making of Modern Greek Identity, 1821-1844*, Oxford University Press, Oxford, 2015.

An international study commission was formed for the specific purpose of enabling the creditors and Greece to get out of this prolonged impasse. It issued a merciless critique of the abuses and deficiencies of the Greek financial system. After an agreement that allowed a deferral of payments, Greece defaulted again around 1860.[5] Greece's utter incapacity to repay its debts or even achieve a sustainable way of stabilizing its public finances was mainly the product of high military expenses, a hypertrophic bureaucracy, and the costs of the royal court. According to Richard Clogg, the political system too was to blame for the crumbling public finances: "The perquisites of power were essential if politicians were to have any chance of satisfying the insatiable demands of their voters-cum-clients. Given the rudimentary development of the economy, the state assumed a disproportionate importance as a source of employment, and the proportion of bureaucrats to citizens was far higher than in Western Europe. […] Elections were fiercely, and frequently roughly, contested, for on each change of government hinged a myriad positions in the public service."[6]

It is important to recall that for three decades, starting in 1832, the king of Greece was Otto I, a German backed by Britain, France and Russia. Otto's Bavarian origins gave rise to the term "Bavarokratia" for this period.[7] In 1863, when Otto I was replaced by the Danish monarch George I, the situation did not change much: massive deficit spending and financial instability continued.[8] The reign of George I opened a special capital market in London to Greece, thanks to a friendly relationship with the Hambro & Son bank.[9] Despite these benevolent agreements, it was necessary to make a final

[5] *Ibidem*.

[6] R. Clogg, *A Concise History of Greece*, Cambridge University Press, Cambridge, 2013, p. 59.

[7] *The New York Times*, 6 March 2010.

[8] P. Dimitrakis, *Greece and the English: British Diplomacy and the Kings of Greece*, I.B. Tauris, London/New York, 2009.

[9] M. Pohl, *Handbook on the History of European Banks*, Edward Elgar Publishing, Aldershot-Brookfield, 1994.

accord with the old creditors, even though this would still not be sufficient to restore financial stability and regain credibility in the eyes of the world. Only genuine agreement between the parties would have allowed Greece to establish a shared program for repayment plans and enabled the country to re-enter the international capital market. Such an agreement was finally reached in 1878.[10]

2. Towards default (1879-1893)

The agreement of 1878 secured the Greek finances, but this solution did not lead Greece to be more attentive to budgetary stability. On the contrary, it allowed the country to obtain new loans for public expenditure. From 1879 to 1893 Greece came back into the foreign capital markets. From 1832 to 1878 the government had not taken out any major loans, so the foreign debt had not increased significantly.[11] Between 1879 and 1890 Greece was granted six foreign loans, increasing the debt to 630 million French francs in 1893. Compared with the foreign debt of 92 million francs in 1871, i.e. before the 1878 agreement, this was a clear indication that Greece was on the road to bankruptcy. Indeed, between 1877 and 1893 the Greek public debt increased from 66.4% to 210.8% of the country's gross domestic product. The total public debt in national currency was 186 million drachmas in 1877 and 1,160 million in 1893.[12]

Financial mismanagement combined with the enormous growth of debt finally sounded the alarm bell among European financiers, who began to see that Greece could not repay what it had been lent. But now it was too late both for Athens and for its creditors. They were already linked together in the impending disaster: Greece could not go on without the loans, while the creditors could not recover

[10] W.H. Wynne, *op. cit.*, pp. 283-360.
[11] S.D. Krasner, *Sovereignty: Organized hypocrisy*, Princeton University Press, Princeton, 1999.
[12] K. Dyson, *States, Debt, and Power: Saints and Sinners in European History and Integration*, Oxford University Press, Oxford, 2014, p. 152.

their investments. The burden of debt was excessive compared to the real possibilities of the country, and the drachma was being devalued. Despite this, the banks received high commissions and extensive guarantees, in order to raise the capital needed to pay the interest on the old debt.[13] The monetary problems worsened when Greece had to cope with the rising premium on gold, which came to account for 81% of the debt, highlighting the deterioration in the financial situation.[14] This increase, combined with the system of fiat money and the trade deficit, drove up the exchange rate between the drachma and gold, increasing the cost of debt contracted in gold.[15]

At the same time the downward spiral in wine production, which had represented half the value of Greek exports in 1870,[16] owing to the introduction of a French customs duty on grapes imported after the phylloxera crisis, drove Greek exports of the sultana grape down from 50 million francs in 1891 to 22 million in 1893.[17] The end result of this monetary, financial and economic crisis was Greece's default on its foreign debt in 1893.[18]

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[13] W.H. Wynne, *op. cit.*, pp. 283-360.

[14] Regarding Greek monetary problems, we should not overlook the country's participation in the Latin Monetary Union (LMU). Greece officially asked to join in 1867 after implementing LMU coinage following a new monetary law. Even though several countries opposed Greek participation owing to its monetary and debt problems, "France wanted the largest possible number of countries to join the Union, independently of their economic condition, in order to get as close as possible to a universal or at least European common coinage". L. Einaudi, *Money and Politics. European Monetary Unification and the International Gold Standard (1865-1873)*, Oxford University Press, Oxford, 2001, p. 106.

[15] See also: *Annual Report of the Council of the Corporation of Foreign Bondholders*, London, 1893: https://library.stanford.edu/collections/corporation-foreign-bondholders-uk-foreign-bondholders-protective-council-us (viewed on 15 December 2015). Recall also that the bimetallic system started to collapse at the end of the 1870s. The discovery of silver mines in the United States severely reduced the value of silver.

[16] The increased production of sultana grapes made Greece more dependent on imported grains. This made the Greek economy more vulnerable. Th.M. Veremis and I.S. Koliopulos, *La Grecia Moderna, una storia che inizia nel 1821*, Argo, Lecce, 2014.

[17] W.H. Wynne, *op. cit.*, pp. 283-360.

[18] Greek governments suspended the convertibility of the currency several times, thus entering into a system of fiat money. From 1828 to 1936 this happened eight times. The first suspension of convertibility was in April 1848 in response to a global financial cri-

3. The attempted bailout and the default of 1893

In May 1893, i.e. months before Greece officially declared default, panic was evident in financial and governmental circles alike. All sorts of initiatives were proposed and developed to avert bankruptcy, which appeared to be fast-approaching.[19]

In the climate of general despair that dominated the government, the prospective reforms, especially those designed to cut public spending, were viewed with deep skepticism. It was clear that no financier would grant a loan to a country on the verge of bankruptcy. Given this state of affairs, in early June 1893 Greece knew with certainty that it could not honor its maturing debt.[20] Failure was now imminent. Just as default came to seem inevitable, on 11 June 1893 the London bank Hambro & Son agreed to extend the Greek government a loan of £4 million sterling at 5%.[21] Since 1864, Hambro & Son had been the most important British source of credit for Greece, thanks to its good relationship with King George I. This close relationship was no accident: after the abdication of Otto I, in 1862 a Greek delegation had gone to London to look for a new king for the country. The banker C.J. Hambro presented the Prince of Denmark, and Greece made him their king as George I. So it is no surprise that Hambro had a favored position in Greece as personal bankers to the King. This also explains the concession of a loan to Athens at the eleventh hour, on the eve of a wholly predictable default.[22]

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sis. Subsequently, fiat money was imposed repeatedly: in 1868, 1877, 1885, 1914 and 1932. Except for a brief period in 1885, when Greece abandoned bimetallism, the government did not adopt the gold standard in credible fashion until 1910; and in 1928 it introduced the gold-exchange standard in sterling: S. Lazaretou, "Greece", in South-Eastern European Monetary History Network, *Monetary time series of Southeastern Europe from the 1870s to 1914*, Bank of Greece Working Paper No. 94, February 2009 (with a foreword by Michael Bordos and an introduction by Matthias Morys).

[19] C.G. Paulus (ed.), *A Debt Restructuring Mechanism for Sovereigns. Do we need a legal procedure?*, Verlag C.H. Hart, Munich-Oxford 2014.

[20] Archivio Storico Diplomatico Ministero Affari Esteri (ASDMAE), Serie Politica "P" (SPP), box 449, from Fè d'Ostiani to Brin, n. 421/149, Athens, 3 June 1893.

[21] ASDMAE, SPP, box 449, from Fè d'Ostiani to Brin, n. 463/161, Athens, 12 June 1893.

[22] K. Schönhärl, "Decision Making, Risk Management and Trust in the 'periphery': London City bankers and their investments in Greece (1850-1910)", *World Business History Conference*, Frankfurt, 16 and 17 March 2014.

Although it was clear that behind the negotiation of credits stood the British government, this loan was not enough to secure the Hellenic finances in the medium and long term. Principally, the money went to redeem 16.5 million drachmas worth of bonds maturing in June, an issue that had been negotiated by the Greek government in 1892 through the National Bank of Greece, which in turn had obtained a large part of the credit from the international markets. In other words, the financial operation carried out on 11 June served to breathe new life into the Greek finances in the very short term, but also to repay one loan with the proceeds of another.[23]

The amount agreed with the bank could not have been enough to abolish the system of fiat money in Greece and re-institute the gold standard, or even to adjust the floating debt, whose value – several million drachmas – was impossible for the Greek administrators even to measure.

Though this loan was used to meet the debt deadlines in June 1893, it also left a surplus of 11 million French francs. This "bridge" loan negotiated with the Hambro & Son was referred to financial circles as a funding loan. Its peculiarity was that it had been approved by royal decree rather than a law passed by Parliament. This move was motivated by the financial urgency, but it damaged the small creditors of the Greek state. Instead of being able to redeem their investment in cash, they had to settle for bonds in local currency for a period of three years, losing 35% of the original value of their investment. The small creditors had to sacrifice their invested savings in favor of the government and the financial institutions that had endorsed the agreement.[24]

Germany protested against this arrangement. Berlin demanded that the Greek commitments be honored – or at least that negotiations be held – in lieu of an arbitrary agreement without Greek consent and with the implicit and explicit complicity of certain financial institu-

[23] M.S. Eulambio, *The National Bank of Greece*, S.C. Vlastos, Athens, 1924.
[24] ASDMAE, SPP, box 449, from di Cariati to Brin, n. 926/320, Athens, 9 November 1893.

tions. It was in fact a common practice for the big banks to negotiate loans either for their own account or acting as intermediaries, and then to persuade private savers to invest with the promise of high and secure returns. In this regard, Prince Di Cariati, an Italian diplomat in Athens, wrote to Foreign Minister Benedetto Brin in November 1893: "As usual, the banks have contributed to attracting small capitalists, spreading the most favorable beliefs about the future of Greece's economy, and without issuing any sort of warning to them from above, as they should have done […]. It must be acknowledged that the Greek Government did not honor the commitments undertaken with its creditors, and that the resulting assets were used for very different purposes and to pay the interest on the public debt. The government was forced to resort to makeshift measures, resulting in a greater and greater increase of the liabilities of the State."[25]

Although the "funding loan" had resuscitated the Greek finances, and notwithstanding Britain's attempt to come to the aid of its old ally by promoting the granting of additional loans, on 13 December 1893 the Greek Parliament officially declared the country's bankruptcy.[26]

Given the obvious impossibility, following the requests made by Athens, to reach an agreement with the foreign creditors, bankruptcy was perhaps the only way to significantly lower the costs and ease obligations to foreign investors. The government of Charilaos Trikoupis immediately proposed a bill for the drastic reduction of the interest on the foreign debt in gold, with no distinction between loans and privileged and non-privileged guarantees.[27]

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[25] *Ibidem*. Translation by Alessandro Albanese Ginammi and Giampaolo Conte.
[26] This was an awful year for international finances in general. The crisis of 1893 broke out in the United States and spread quickly to the European continent. It overwhelmed the Italian banking system and paved the way for the creation of Bank of Italy. See A.H. Meltzer and D.E. Moggridge, "Real and Pseudo-financial Crisis", in F. Capie and G.E. Wood (eds.), *Financial Crisis and the World Banking System*, Palgrave Macmillan, Basingstoke, 1986, p. 19; F. Cotula, M. De Cecco and G. Toniolo, *La Banca d'Italia. Sintesi della Ricerca Storica 1893-1960*, Laterza, Bari/Roma, 2003.
[27] ASDMAE, SPP, box 449, from Fè d'Ostiani to Brin, n. 1060/370, Athens, 14 December 1893.

The Greek Parliament was preparing a forced conversion in order to reduce the creditors' interest claims substantially. The measure was retroactive, covering not only the bonds of 3-15 December 1893, but also those of July and October, paid with the funds obtained from Hambro & Son, which had been necessary in order to capitalize the interest on Greece's foreign debt, due over three years at the end of which Greece had to repay the arrears as well.

The decision of the Greek government therefore voided the provisions of the agreement with London. Trikoupis announced that the bonds of December 1893 and January 1894 would be paid with a reduction of 50% on the nominal value, and in paper money, not in gold. Thus considering the economic crisis and the system of fiat money, the devaluation of the interest payments would be much greater than 50%.[28]

Trikoupis underscored that the reduction was to be only provisional and that once the financial conditions of Greece had improved, the government would settle the back interest. These promises and the conduct of Athens, which avoided any negotiation with its creditors, prompted the chairman of the international committee, Sir John Lubbock, to put forward a formal protest. He demanded that the situation be examined in a discussion between his representatives and those of the Greek government. Lubbock further demanded that the government provide firm guarantees of concrete, future improvement in the financial situation, upon which full payment of the interest due depended.[29]

The subsequent negotiations followed the same pattern as those preceding the funding loan agreement between March and May 1893. The International Committee of the holders of the Hellenic annuity asked for the international commission to extend its control over the Greek finances by receivership. Trikoupis refused but agreed to receive a commission sent by the International Committee to examine the state of the finances.

[28] *Ibidem*.

[29] For more details, consult the official records of the British foreign office at the National Archives, FO 881 confidential print.

In contrast with May 1893, when there had still been the hope of a loan, now, in April 1894, Greece had already defaulted and could not negotiate any loan.[30]

In the end, the creditors' committee sent a letter to Trikoupis asking to have at least some State revenues earmarked strictly for debt service on the bonds. The government was to announce, as a *sine qua non*, the untouchability of the specified revenues; that is, that they could not be allocated to any other purpose, as they had been in the past. On the basis of this proposal, the negotiations with Trikoupis got under way. The committee had to accede to his requests, however, for two reasons: first, everyone had realized that it was a very short step from partial default to complete bankruptcy. Therefore, it was better to accept a settlement that would guarantee at least some income at that moment, while paving the way for the subsequent repayment of the entire debt, as the Greek government guaranteed. Secondly, the great powers did not support the creation of an international commission to control the Greek finances: Britain and Russia opposed this course, unlike France and Germany, which were the harshest critics of Greece's laxity.[31]

W.H. Wynne, in *State Insolvency and Foreign Bondholders*, divides the negotiations with the European powers into several major phases. The first was the beginning of the talks between Trikoupis and the British, French and German delegates who came to Athens to discuss the issue of the debt guarantees. These negotiations soon turned more complicated and delicate than expected. Trikoupis finally accepted the solution offered by the international committee, which provided for the inviolability of the revenues earmarked for the payment of the limited bonds.

However, the most nationalistic forces in parliament argued that this would limit Greece's sovereignty, its control over its own resources. The solution was to keep these assets within the revenues collected by the Monopoly Society, which had been formed before

[30] ASDMAE, SPP, box 449, from Fè d'Ostiani to Blanc, n. 370/126, Athens, 24 April 1894.
[31] ASDMAE, SPP, box 449, from di Cariati to Blanc, n. 397/137, Athens, 4 May 1894.

the crisis, in 1887,[32] and which was already acting as a loan guarantor pursuant to an understanding of 1894. This would avert additional embarrassments for the Greek government. The *Société de Régie des Monopoles* would provide guarantees to foreign creditors – but not intervene directly in the administration of the country.

The negotiations were tense, and it was essential to avoid any disruption, which would have led to disaster. Italian diplomatic circles were well aware of the situation. The diplomat Fè d'Ostiani wrote to the Foreign Minister, Alberto Blanc, in May 1894: "The consequences of a definitive breakdown in the negotiations on the Greek debt for final settlement would be an irreparable disaster, the possibility of which should worry these administrators to the highest degree."[33]

The agreement reached mirrored the negotiations: the loans were guaranteed collectively by the profits of the State monopolies. But with the issue of the guarantees settled, there still remained the question of the amount of interest payable. For nearly a year, no agreement was reached. Trikoupis was taking his time, continuing to meet the deadlines for interest payments that had been more than halved. Playing for time was strategic, but the Greek people needed a solution, as the uncertainty of the situation was damaging the whole national economy.

According to the opposition party leader, Theodoros Deligiannis, the responsibility for this financial disaster was undoubtedly that of Trikoupis himself who, by "committing the population to large expenses without having any chance of paying them back, had plunged the nation into the abyss of debt. The two common means – cutting the economy to the bone and increasing taxes to the highest degree – were not feasible as they had already gotten down to the bone of the economy, and, as to taxes, the Greek people could not even afford to pay the current ones to the collector, who is and always will be a Turk

[32] A.C. Tunçer, *Sovereign Debt and International Financial Control. The Middle East and the Balkans, 1870-1914*, Palgrave, Basingstoke, 2015, p. 110.
[33] ASDMAE, SPP, box 449, from Fè d'Ostiani to Blanc, n. 465/157, Athens, 17 May 1894. Translation by Alessandro Albanese Ginammi and Giampaolo Conte.

[a foreigner, an undesired oppressor]. This was evident in the recent uprisings of the rural populations of Elis. The debt collectors and bailiffs who had gone there to collect taxes and to order requisitions had to flee, their clothes torn and shoulders bruised."[34]

The first part of the negotiations on the guarantees of limited bonds undertaken in 1894 had not produced full agreement between the parties on the share of interest to be paid. The second part of the talks culminated with the proposal of Paris in 1896. Trikoupis's government had fallen in January 1895 without having found any solution to the dispute with the international creditors. The politician who succeeded him, heading the government from then until June 1895, was Nikolaos Deligiannis, one of the main personalities of the Greek irredentist movement. Afterwards, Theodoros Deligiannis, a member of the same nationalist party as his homonymous predecessor, was both prime minister and minister of finance, given the seriousness of the financial situation.[35] With the new government, the negotiations with creditors could finally get under way, after a delay of almost three years. Athens proposed the reduction of the interest due by a further 27.5% of its original value.[36] In response to this proposal, the creditors demanded that the company that administered the monopolies be run by a committee of eight members, half of them chosen by the creditors themselves. This would have been the first step towards international control of Greece's finances. The Greek negotiators firmly opposed this trick, refusing all foreign interference in the management of the country's finances and, consequently, its economy in general.

After this exhausting tug-of-war, the creditors eventually accepted the reduction in the proportion of interest as Athens had demanded, so agreeing to what they had deemed unacceptable in 1894.

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[34] ASDMAE, SPP, box 449, from Carlo Alberto Pisani Dossi to Blanc, confidential, n. 531/190, Athens, 22 September 1895. Translation by Alessandro Albanese Ginammi and Giampaolo Conte.

[35] ASDMAE, SPP, box 449, from Carlo Alberto Pisani Dossi to Blanc, n. 102/29, Athens, 17 February 1896.

The negotiations ended with a drastic reduction in the percentage of the interest payment, in exchange for the establishment, under Greece's control, of the Company of Monopolies, with the latter's surprising guarantee that all the interest due would be settled someday.

In the light of the above, it is clear that Hambro & Son's funding loan of 1893 cannot be considered as a credible bailout attempt, for two reasons. First, the amount of the loan was derisory in proportion to Greek financial needs, save for the immediately impending payment dates. Second, the loan appeared to reflect personal relationships among the Greek royal family, the bank and the British government, not a solid and pragmatic plan to save Greece from its financial troubles in the medium term.[37] In the end, the defeat of the Greek Army in the Greco-Turkish war of 1897 resulted in an international receivership for servicing the public debt.

4. Greece in the EEC and the euro despite financial problems (1970-2001)[38]

After seven long years of military dictatorship from 1967 to 1974, the center-right party Nea Demokratìa (ND) ushered in a new pe-

[36] W.H. Wynne, *op. cit.*, pp. 283-360.
[37] NA, FO 881/8576X, Hamilton E.W., *Greek Finance*, confidential, London, 19 May 1898.
[38] These paragraphs focuses on the political and economic history of Greece, but in order to fully understand the situation in Greece between 1970 and 2000 we must also consider other factors that are not part of our investigation: oil shocks, foreign exchange rates, trade integration, economic integration, wage and welfare systems, the black market, migration, etc.
On the External Relations of the EEC see: F. Bicchi, *European Foreign Policy Making Toward The Mediterranean*, Palgrave Macmillan, Basingstoke, 2007; F.M. Bindi, *The Foreign Policy of the European Union: Assessing Europe's Role in the World*, Brookings Institution Press, Washington, 2010; S. Keukeleire and T. Delreux, *The Foreign Policy of the European Union*, Palgrave Macmillan, Basingstoke, 2014.
On the integration of Greece into the EEC see: Archivio Storico Diplomatico del Ministero degli Affari Esteri e della Cooperazione Internazionale (ASDMAE), Direzione Generale Affari Politici - Ufficio II 1963 (Versamento III); see also M. Dumoulin and M.T. Bitsch, *La Commissione europea 1958-1972. Storia e memorie di un'istituzione*, European

riod of democracy. Unluckily, since then Greece has been afflicted by a series of economic crises. A very brief summary of Greek economic history over the last 40 years can help us get at the causes of the country's recurring financial troubles.

Following the return to democracy in 1974, under the administration of Konstantinos Karamanlis[39] the public debt began to grow, with rapid inflation, a huge payments deficit and a deep recession.

Greece became a member of the EEC in 1981, the year that the Panhellenic Socialist Movement (PASOK) under Andreas Papandreou came to power. PASOK governed for ten years but did not improve the financial or budgetary situation. In the course of a decade, Greece took loans from everywhere to finance consumption, its bloated and inefficient public sector and a social security system that soon drove the country to the verge of bankruptcy. According to Thanos Veremis,[40] what PASOK's administration lacked was socialism: "PASOK did not take from the rich to give to the poor, but they were all burdened with debts."[41] In 1985 the Greek government secured a loan of $1.75 billion from the EEC, and at the end of the 1980s the IMF, the OECD and the European Commission published alarming reports on the state of the Greek finances.[42]

In the 1990s,[43] after ten years of socialist government during which the public debt had risen from 35% of GDP in 1980 to 120%

Commission, Brussels, 2007; European Commission, *La Commission européenne 1973-1986*, European Commission, Brussels, 2014; G. Ross, *Jacques Delors and European Integration*, Polity Press, Cambridge, 1995; P. Cecchini, *The European Challenge*, Wildwood House, Aldershot, 1988; E. Calandri, M.E. Guasconi and R. Ranieri, *Storia politica e economica dell'integrazione europea. Dal 1945 ad oggi*, Edises, Naples, 2015; G. Mammarella and P. Cacace, *Storia e politica dell'Unione Europea*, Laterza, Rome-Bari, 2014. See also: E. Calandri, "L'Italia e le relazioni esterne della Comunità europea 1957-1964", in A. Varsori, *Storia delle Relazioni Internazionali*, Il Maestrale, Florence, 2000; M. Petricioli, *L'Europe méditerranéenne*, Peter Lang, Brussels, 2008.

[39] Founding father of Nea Demokratìa and promoter of Greek accession to the EEC.

[40] Professor of Modern History at the University of Athens, Department of European and International Studies and Member of the Board of Directors of the Hellenic Foundation for European and Foreign Policy (ELIAMEP).

[41] Th.M. Veremis and I.S. Koliopulos, *op. cit.*, pp. 230-242.

[42] *Ibidem*.

[43] In 1990 Nea Demokratìa was returned to office.

in 1990, Nea Demokratia imposed austerity, consequently losing the elections of 1993. PASOK came back into power, promising the Greek people happy days again. In the same year the European Union (EU) was born, and two years later the project for a single European currency was approved. As for Greece, it turned over a new page with the death of the most important post-war political leaders, the rivals Papandreou and Karamanlis, who died on 23 June 1996 and 22 April 1998 respectively.

Since the turn of the century, Greece's adoption of the single currency with entry into the Eurozone in 2001 has precluded use of the monetary policy tools that had helped the country to overcome the financial crises of the past. In fact, Greece had always made full use of its monetary sovereignty, despite the repeated defaults and the receivership imposed by the European powers in 1898. While the best informed economists continued to wonder what had allowed Greece to qualify for the euro despite its weak economy, in Athens the ghosts of Karamanlis and Papandreou haunted the political scene in the form of Kostas Karamanlis, Konstantinos' nephew, and Georgos Papandreou, Andreas's son. They are the actors responsible for dragging Greece into the catastrophe of the 2000s. Indeed, since 1999, Greece's deficit has never been below 3%, as required by the Eurozone parameters.[44]

How, then, did Greece manage to alter its accounts in order to meet the Maastricht criteria and qualify for the euro with Brussels' approval? In the analysis of Bruno Amoroso,[45] "it was evident that Greece was not able to join the EU pursuant to its parameters, because of its excessive debt. However, the EU was interested in Greece's entry both for political reasons and for prestige. Therefore, it forced the situation by approving an external guarantor who would fix the Greek finances prior to entry. This guarantor was the Goldman Sachs investment bank. It assured that the Greek debt was not a problem as it could be recycled, broken up and sold on the

[44] "Eurozone crisis: Greek timeline", *The Guardian*, 17 November 2011.
[45] Professor Emeritus of Economics at the University of Roskilde (Denmark).

markets, thus transforming it into credit. By doing this, Greece entered the EU with its debt appearing as a credit and even gained more loans, which further increased its debt. These loans were mainly granted by German banks."[46]

5. Towards default (2001-2010)

At this stage, two more questions can provide analytical insight into the situation. First, why did the EU allow Greece to adopt the euro in 2001, and allow Goldman Sachs to help mask the Greek debt? And second, why did the EU want Greek membership of the Eurozone if the Greek economy was in such trouble?

On how Goldman Sachs helped Greece to mask the debt, the short response is that it did, but only marginally and in a legal manner, because the real problems lay elsewhere.

Greece's fiscal statistics underwent a series of revisions, each one covering a number of years. The first revision, in spring and autumn 2002, was simply massive, adjusting the debt by something like 15% of GDP. But somehow, surprisingly, no one appeared to care; this was not a significant political development, and no one in the Greek or international media discussed it.

A second major revision occurred during 2004. It was often presented as new data disclosed by the new ND government, but actually those who were working on the issue exploited the change of government to force the disclosure of hidden data in the spring and later in the year. At the time, Eurostat and the Economic and Financial Affairs Council (ECOFIN) published reports on the issue.[47] The

[46] Professor Amoroso gave us this answer in October 2014, when he was interviewed by the authors during a period of research in Athens. For further information we suggest the BBC documentary "How Goldman Sachs helped mask Greece's debt", BBC video news, 20 February 2012, and "Wall St. Helped to Mask Debt Fueling Europe's Crisis," *The New York Times*, 3 February 2010.

[47] "Report by Eurostat on the Revision of the Greek government deficit and debt figures", 22 November 2004: http://ec.europa.eu/eurostat/documents/4187653/5765001/GREECE-EN.PDF/2da4e4f6-f9f2-4848-b1a9-cb229fcabae3?version=1.0

very substantial revisions of 2004 gave Greek statistics an extremely bad name, although the changes were not really larger than those of 2002. At any rate, on both occasions the revisions covered many years, including the data on the basis of which Greece had qualified for the euro. It is a pity that the European Parliament held no inquiry at the time (why not is an interesting question), and that no Greek prosecutor tried to identify who had lied on behalf of the state (here, why not is even a better question). It is not hard to believe that this was a matter of criminal law in Greece, and the EU reports contained evidence that would send some people to jail. These reports – and other Eurostat documents – show that the revisions related mostly to military expenditure (underreported), social security accounts (basically, numbers were just invented), tax revenues (overreported), problems with structural fund resources, underreporting of capitalized interest, debt assumptions and capital injections, etc.

At the same time, in 2004 an historic event gave Greece the chance for change: the Olympics were held in Athens for the first time since the first modern Olympic Games of 1896. It looked like a turning point for Greeks, projecting the country towards modernity. Instead, the Games simply became – almost exclusively – an opportunity for the Greek government to get new loans. And the financial crisis that erupted in 2007-08 struck Greece with particular violence,

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(viewed on 12 January 2016); "Report on the Accountability issue related to the revisions of Greek budgetary data", Communication from the Commission to the European Parliament and the Council, December 2004: http://ec.europa.eu/transparency/regdoc/rep/1/2004/EN/1-2004-784-EN-F1-1.Pdf (viewed on 12 January 2016). See also Bank of Italy, Economic Bulletin Archive: https://www.bancaditalia.it/pubblicazioni/bollettino-economico/.See more on the EBC website: European Central Bank, "Credit market disequilibrium in Greece (2003-2011)", Working paper No. 1805, June 2012: https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1805.en.pdf?be249a6c2fe04802c491fda6b06cb0d4 (viewed on 12 January 2016). European Central Bank, "A Financial Systemic Stress Index for Greece", Working Paper No. 1563, July 2013: https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1563.pdf?329c322b5a4e3af56af3f9e6ba8479f1 (viewed on 12 January 2016). European Central Bank, "Fiscal policy adjustments in the euro area stressed countries: new evidence from non-linear models with state-varying threshold", Working Paper No. 1853, October 2015: https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1858.en.pdf (viewed on 12 January 2016).

owing to its uncompetitive economy, weak administrative structure and massive tax evasion in some key fields.

The statistical revisions of 2002 and 2004 adjusted the deficit by as much as 3, 4 or 6 percentage points of GDP for some years. The problems in the reporting of the debt were gigantic, on the order of 15% of GDP disclosed in 2002 and practically another 10% in 2004; the impact of the off-market swaps arranged by Goldman Sachs was probably less than a tenth of these amounts, somewhere around 0.3% or 0.5% of GDP. Goldman Sachs came in for massive criticism when the Greek debt crisis emerged, but its responsibility in the matter was actually quite limited. Furthermore, in relation to the off-market swaps at least initially neither Goldman Sachs nor the Greek statisticians did anything illegal. The statistical rules at the time contained some loopholes, from which Greece and some other countries benefited to beautify their accounts.[48] So Goldman Sachs did help Greece to mask its debt and deficit, but the portion of the total statistical deviation that related to Goldman Sachs was very small. If the problem in Greece had been merely the Goldman Sachs-arranged swaps, it would have been a negligible issue, practically irrelevant. Why did EU allow this? Because the EU was not aware of the problem. And also because there was no clear legal basis for checking the Member States' accounts until 2005, and in any event because the Commission and Eurostat did not realize how Member States could manipulate their data. Today Eurostat has an entire directorate for checking Member States' fiscal data; at the end of 2004, there were two staff members assigned to this task: one in Eurostat and one in ECOFIN. Lastly, the statistical rules in place in 2001 had been designed for other purposes and were easily manipulated.

Why, then, in view of the troubled Greek economy, did the EU want Greece to be part of the euro? When the decision was made, in 2000, Greece had very high debt and problems with its the external accounts, but the figures indicated – falsely – that the debt was declining

[48] Including Italy; see G. Piga, *Derivatives and Public Debt Management*, published in cooperation with the Council on Foreign Relations, New York, 2001.

and – again wrongly – that the deficit was below the threshold. It was a very fragile economy and everybody knew it, but the EU wanted Greece to join because this was basically the logic of the treaties, and the country had apparently managed to fulfill the numerical criteria. In any case, the main problem was not that Greece had qualified on the basis of false data. Rather, it was that the euro overheated the Greek economy, but these extremely good conditions were not used to reduce the deficit and debt – in part because the numbers were wrong – but instead undermined the competitiveness of the economy. Much graver than the fact that some data were far from true when Greece joined the euro was that the figures were so often wrong afterwards, that so many bad policies were adopted by action or inaction, and that the quality of policy making was so appalling.

Another revision was made in 2009-2010, but of a very different nature. There were some residual problems with the statistics (including the swaps), but it was mainly a matter of bad forecasts, not bad statistics. Another substantial problem was the sectoral classification of a number of entities. Goldman Sachs had arranged a series of off-market swaps, which contributed to the underreporting of debt and interest expenditure. The problem was technically complex and had been discussed on several occasions between 2001 and 2009.[49] What is important – crucial, really – is that the amounts of underreported debt and deficit due to the Goldman Sachs-arranged swaps are very small, much smaller than the other issues.

In 2009, when the governing center-right party called for elections, its defeat appeared inevitable because it had promised the people "blood and tears," while the opposition socialist party was not ready to face such a serious situation and continued lying, saying that "the money is there!"[50]. On 4 October, Georgos Papandreou became prime minister of a country with a public debt that had increased from €168 billion in 2004 to €262 billion,[51] while the Centre

[49] *Ibidem*.
[50] Th.M. Veremis and I.S. Koliopulos, cit., p. 243.
[51]" Eurozone crisis: Greek timeline", *The Guardian*, 17 November 2011.

for European Reform (CER) gave a negative assessment of Greece's progress in the EU: "The country is lagging behind in adopting new technologies, it is moving slowly in education policy and it applies a regulatory system that is more disadvantageous for enterprises than that of the other countries, and it obstructs product markets."[52]

Starting in mid-2009, the interest rates on foreign loans began to rise irreversibly,[53] and on 22 October the American rating agency Fitch, which had guaranteed Greek CDOs[54] as safe for years, lowered the country's rating for the first time in a decade, trimming it from A- to BBB+. On 15 December another American rating agency, Standard & Poor's, downgraded the Greek debt from A to BBB+, and on 24 December the American agency Moody's lowered its rating from A1 to A2. These problems forced the Greek parliament to approve severe cuts in the 2010 budget. The debt crisis swept through Europe and the rating agencies became the "tough teachers" who punished the so-called PIIGS.[55] Leaving the legitimacy of their function aside, in any case one wonders who they are from the legal standpoint, and who gave them such a power to help determine the mood of world financial markets practically without any rules. In fact, at a time when their activities were totally unregulated by law, these rating agencies began to scare the markets, governments and public opinion in the countries most involved in the crisis. If Papandreou's government were to become unable to roll over Greece's maturing debt, payments would have to cease: Greece would default. This idea began to take hold both in government offices and in public opinion, influencing the rest of Europe, which now for the first time faced the risk of a collapse of the system.

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[52] K. Barysch, S. Tilford and A. Wanlin, "The Lisbon Scorecard VII, Will Globalization leave Europe stranded?", Centre for European Reform (CER), London, February 2007, in Veremis Th.M. and Koliopulos I.S., *op. cit.*, p. 243.
[53] *Ivi*, p. 244.
[54] Collateralized Debt Obligation. For more on CDOs see L.S. Goodman and F.J. Fabozzi, *Collateralized Debt Obligations: Structures and Analysis*, Wiley, New York, 2002.
[55] PIIGS: Portugal, Ireland, Italy, Greece and Spain. For more see "The PIIGS that won't fly", *The Economist*, 18 May 2010.

6. The bailout of 2010

For insight into the concepts of alarm and emergency, it is interesting to analyze so-called "black swan" events, i.e. exceptional, extreme cases in which extraordinary phenomena generate an atmosphere of anxiety and worry, producing panic in the stock markets, lack of confidence among investors, and hence a collapse in prices. The term was used in a 2007 book by Nassim Nicholas Taleb, *The Black Swan: The Impact of the Highly Improbable* (Random House, New York), evoking the famous verse of Juvenal: *Rara avis in terris, nigroque simillima cygno*, that is to say "rare bird on earth, most similar to a black swan."[56] At the time the subprime mortgage crisis was already under way, and the ideal conditions for the success of this particular essay had begun to take shape.

In Europe, meanwhile, the single currency was totally without common management and inevitably suffered from imbalances and asymmetries and "was targeted by the speculative system, which wagered on the inability of the weakest countries to remain in the Euro zone."[57] The Anglo-American multinational financial corporations, which had opposed the single currency from the beginning, were accused of betting on its collapse or "on its considerable devaluation in favor of the dollar, which would remain unrivaled as the currency of world trade settlements.[58] The crisis mainly involved the countries of southern Europe, while Germany reached new records thanks to its exports. The gap between North and South became unbearable, and requests for aid from the countries in difficulty increased.[59]

In January 2010, the IMF decided to send a special mission to Greece with a view to possible technical assistance.[60] The European

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[56] M.L. Skinner, *Black swans: rara avis in terris nigroque simillima cygno*, J. Cape Limited, London, 1925.
[57] G. Mammarella and P. Cacace, *Storia e Politica dell'Unione Europea*, Editori Laterza, Bari, 2013, p. 347.
[58] *Ibidem*.
[59] *Ibidem*.
[60] IMF survey, *Greek Economy at a Crossroads*, 17 December 2010: https://www.imf.org/external/pubs/ft/survey/so/2010/int121710a.htm (viewed on 12 January 2016).

Commissioner for Economic and Monetary Affairs, Olli Rehn, reported to the European Parliament that Greece represented a decisive test of the EU's ability to cope with critical situations for the public finances.

In April, after a week of tension in the markets, an extraordinary summit of the Eurogroup proposed a contingency plan to save Greece. The amount suggested was between €40 billion and €45 billion, of which €10-15 billion was made available by the IMF and the rest contributed by the members of the Eurozone, each according to its percentage of the share capital of the ECB.[61] On 15 April, the Minister of Finance, Giorgos Papaconstantinou, asked the EU and the IMF to discuss the workings of assistance should Greece request financial intervention.[62] Meanwhile, in Berlin, the main economic research centers contended, in their biannual report, that the aid plan for Greece "contradicted the spirit of the Maastricht Treaty" and expressed their strong skepticism over Greece's chances of reducing the public debt.[63]

On 23 April, Papaconstantinou announced that Greece could not sustain the level reached by the spread[64] – i.e. the increase in the interest rates on bonds maturing on the following 19 May. This triggered panic on the European financial markets. Standard & Poor's downgraded the Greek debt again, rating it as "junk," which led to a depreciation of the euro against the dollar. All of Europe was in alarm. Papandreou addressed the nation on television, asking for the EU-IMF aid plan and calling it "a national necessity."[65] The government approved €40 billion worth of aid and cut the Christmas

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[61] Italy's contribution came to €5.5 billion. See E. Galanti, "Cronologia della Crisi 2007-2012", *Quaderni di Ricerca Giuridica della Consulenza Legale della Banca d'Italia*, No. 72, Appendix, May 2013.
[62] *Ibidem*.
[63] *Ibidem*.
[64] The spread – the difference between the interest rates on the bonds of countries in difficulty and those considered virtuous, particularly Germany, which could refinance at little more than symbolic rates – became debt managers' daily nightmare: G. Mammarella and P. Cacace, *op. cit.*, p. 347.
[65] *Ibidem*.

bonus and vacation pay for public employees, raised the retirement age, and increased VAT and other indirect taxes. This precipitated in a wave of strikes.

On 2 May 2010, the Eurogroup agreed to provide bilateral loans pooled by the European Commission (the so-called "Greek Loan Facility") for a total of €80 billion to be disbursed between May 2010 and June 2013.[66] The financial assistance agreed by the Eurozone Member States was part of a joint package together with the IMF[67] that committed an additional €30 billion under a stand-by arrangement.

On 26 May 2010 the European Commission published an occasional paper entitled "The Economic Adjustment Programme for Greece,"[68] which testified to the progressively more intensive international monitoring of Greece's finances. The overseers – dubbed the "Troika" – were the Commission itself, the ECB and the IMF. These three institutions had sent a delegation to Athens from 21 April to 3 May 2010 following Greece's request for "international financial assistance."[69]

The question, at this point, is what "international financial assistance" means. Is it synonymous with "bailout"? From the outset, the reasons for the Troika's intervention were apparently clear: the paper argued that the strong growth achieved by Greece between 2000 and 2009 had lacked sound foundations, owing to the unsustainable policies of its governments.[70] The data cited by the Com-

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[66] This amount was eventually reduced by €2.7 billion, as Slovakia elected not to participate in the Facility while Ireland and Portugal stepped down from it as they themselves requested financial assistance.
[67] IMF survey, *Greece: Reform Agenda Essential for Growth*, 15 July 2011: https://www.imf.org/external/pubs/ft/survey/so/2011/car071511a.htm (viewed on 12 January 2016).
[68] European Commission, Directorate-General for Economic and Financial Affairs, *The Economic Adjustment Programme for Greece*, Occasional Papers, No. 61, May 2010: http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp61_en.pdf (viewed on 12 January 2016).
[69] European Commission, *op. cit.*, p. 1.
[70] *Ivi*, p. 3.

mission showed the lack of competitiveness of Greece in international markets – the rigid labor system and other problems – and spotlighted Greece's great vulnerability and the economic crisis of 2008-2009.

Secondly, in the eyes of the world the country seemed to be on its knees. Prime Minister Papandreou spoke on national television, announcing "great sacrifices to avoid bankruptcy" to prepare the Greek people for the bitter medicine of the Troika's austerity plan.

The ECB supported the austerity plan in a note, arguing that the measures had to help Greece to restore confidence and safeguard financial stability in the euro area.[71] The German Chancellor Angela Merkel announced that although the austerity plan was very ambitious, aid to Greece was "the only way to ensure the stability of the euro."[72] But the Greek government could not lie to the people, and an exhausted Papaconstantinou appeared again on television to explain that "the multi-year program of fiscal consolidation and structural reforms included cuts in public spending of €30 billion to be made by 2012 and the reduction of the deficit to 3% by 2014, with a reduction of 11 percentage points of GDP over four years.[73] At the end of his speech, the minister emphasized that there was no alternative: otherwise Greece would go bankrupt. Every quarter the Troika would monitor the implementation of the plan for economic adjustment, while Athens had to push through reforms.

The austerity plan struck public employees above all: cuts in allowances, wage and retirement freezes, cuts or abolition (for pensioners drawing more than €2,500 a month) of the Christmas bonus and vacation pay, a reduction of 20% in wages.[74] Greater flexibility in the conditions of private sector workers was also expected: no

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[71] "Accordo per salvare la Grecia. Piano da 110 miliardi di euro. Ad Atene settimana di scioperi", *Il Sole 24 Ore*, 2 May 2010.
[72] *Ibidem*.
[73] IMF survey, *IMF Board Approves €28 Billion Loan for Greece*, 15 March 2012: https://www.imf.org/external/pubs/ft/survey/so/2012/car031512b.htm (viewed on 12 January 2016).
[74] *Ibidem*.

cuts to wages but a reduction in overtime and unemployment benefits, a simplification of business leave. As for indirect taxes, the VAT rate was increased to 23% and excise taxes on fuel, alcohol, cigarettes, the lottery and luxury goods were increased to 10%.[75]

The German weekly *Der Spiegel* revealed that the IMF had planned to stay in Greece for at least ten years, that is until the conclusion of the austerity measures.[76] It also revealed that the US Treasury Secretary, Timothy Geithner,[77] had put pressure on Angela Merkel at the G7 meeting of Ministers in 2010 in Washington. Geithner argued that the Greek crisis had to be resolved in order to avoid its spread to the US, and contended that this was Germany's job as "the leading country among the European powers."[78]

On 7 June 2010 the European finance ministers met in Luxembourg to approve the creation of the European Financial Stability Facility (EFSF), dubbed the "Rescue Fund". It was constituted as a Luxembourg company under private law. All European countries could obtain loans and credits from it in order to recapitalize banks

[75] *Ibidem*.

[76] IMF survey, *IMF Support for Greece Moves Ahead with €3.24 Billion Disbursement*, 18 January 2013: https://www.imf.org/external/pubs/ft/survey/so/2013/int011813a.htm (viewed on 12 January 2016). See also IMF survey, *Greece Makes Progress, But More Effort Needed to Restore Growth*, 5 June 2013: https://www.imf.org/external/pubs/ft/survey/so/2013/car060513a.htm (viewed on January 12, 2016).

[77] "After graduation, Timothy Geithner got a Masters in International Economics and in 1988 he was hired by the International Affairs Division of the Treasury Department of the United States. From 1998 to 2001 he was Undersecretary of the Treasury for International Affairs under Secretaries Robert Rubin and Lawrence Summers. In 2002 Geithner left the Treasury to join the Council on Foreign Relations as a Senior Fellow of the Department of International Economics. He was director of the Department of Development Policies from 2001 to 2003 at the International Monetary Fund. In that year he was appointed Chairman of the Federal Reserve Bank of New York. In 2009 Geithner was appointed Secretary of the Treasury. Before this, he had been working with Henry Paulson to resolve the economic crisis in the US. Among the supporters of his candidacy was John Thain, managing director of Merrill Lynch. Currently, he holds the position of Treasury Secretary in the US for Barack Obama's administration." In "Timothy Geithner", Argomenti del Sole, *Il Sole 24 Ore*: http://argomenti.ilsole24ore.com/timothy-geithner.html (viewed on January 12, 2016).

[78] "Accordo per salvare la Grecia. Piano da 110 miliardi di euro. Ad Atene settimana di scioperi", *Il Sole 24 Ore*, 2 May 2010.

and buy government bonds. It had a term of three years and was endowed with €440 billion in Member State contributions.[79]

With the creation of the euro, monetary policy became a matter for an independent European Central Bank, instituted specifically to perform this function, whereas fiscal policy (taxes and spending) remained in the hands of national governments: "[A]lthough they agree to comply with the commonly approved rules concerning public finances, consolidated in the so-called Stability and Growth Pact, [n]ational governments retain full sovereignty over structural policies (labor, pensions, capital markets), even if they agree to coordinate them in order to achieve the common goals of stability, growth and employment."[80]

After the approval of the Maastricht Treaty of 1992 and the end of national monetary sovereignty, the duties stemming from the Treaty obliged the European powers to avoid excessive deficits. Penalties were instituted to enforce compliance with the deficit parameter (a ceiling of 3% of GDP on the difference between expenditures and revenues each year) and the debt parameter (in principle, a maximum of 60% of GDP). ECOFIN monitored the members' financial activities, evaluating both structural measures (which affect the public finances for a number of years) and temporary, one-off measures. However, the difficulties of some members in complying with European standards led to the introduction of provisions for more flexibility for governments, hence greater tolerance of violations. In any event, European discipline has exerted a great influence on European public finances.[81]

Between 2008 and 2010, many bailouts of financial institutions that were in a state of insolvency were carried out in Europe and the United States, at very considerable cost to public budgets. And in fact "the bailout of a sovereign state is also possible. In this case,

[79] G. Mammarella and P. Cacace, *op. cit.*, p. 348.
[80] European Commission website: http://ec.europa.eu/index_it.htm (viewed on 12 January 2016).
[81] Italian Encyclopedia of Science, Literature and Arts, Treccani website: http://www.treccani.it/ (viewed on 12 January 2016).

other countries, along with institutions such as the IMF, lend funds to the country that has difficulty in obtaining finance on the private market, in order to prevent its default. This is what happened in Europe in 2010-2011 with the plans of assistance in favor of Greece, Ireland and Portugal."[82]

These interventions have raised a delicate legal issue, given that the EU Treaty contains a "no bailout" clause whereby no country should be rescued by the other members. The Nobel Prize-winning economist Paul Krugman explains that the main problem here is that Europe is not fiscally integrated. On the one hand there are countries such as Greece, which offer government bonds at high interest rates (and high risks). And on the other there are countries like Germany, whose interest rates are lower, reflecting the lower risk of non-payment of the country's debts. The system is distorted because banks of countries such as Germany, attracted by high profits thanks to the high interest rates and heedless of the risks, lent to Greece, while their shareholders were uninformed if not actually misinformed. That is why the debt of a marginal country can impact on the whole European banking system.[83]

Is it true that Germany was against the 2010 financial intervention in Greece because it conflicted with the Treaty of Maastricht? Initially, at the end of 2009, no one knew whether Greece would actually require financial support. Moreover, and crucially, there was no tool, no instrument, no European Union budget line to help a euro-area country that could no longer access the market. Only the IMF could help, but it could not provide more than a fraction of the money Greece needed. So a European mechanism had to be created from scratch. Germany was no more against this than the other countries. At the beginning, the situation was unprecedented, and in fact what prevailed was a state of disbelief. Later, some people, in Germany and elsewhere, thought that assistance to a country like Greece was illegal. The initial doubts of Germany were crucial, or at

[82] *Ibidem*.
[83] "Can Europe Be Saved?", *The New York Times*, 12 January 2011.

least more important than those of some other Member States, inasmuch as once Germany agreed to finance Greece the rest would ultimately come on board, while without the financial strength of Germany nothing could really be done. In spring 2010, a mechanism of financial support was invented. Germany was as cooperative as any other member. And the mechanism that was invented was not illegal, nor did it violate the Maastricht Treaty. At the time, only one euro-area country, Slovakia, refused to participate in the financial aid to Greece. An informal dialogue at the end of 2009 between high officials of the EU, Germany, France, and the ECB might be stylized as follows: "Do we believe Greece will need money? Yes. Do we want them to knock on the IMF's door? No. Are we ready to help them? No." Of course, such a position was inconsistent. It was only a reflection of the initial state of disbelief.

If Greece has received billions of euros in bailouts, why has the crisis continued? According to the New York Times, "the money was supposed to buy Greece time to stabilize its finances and quell market fears that the euro union itself could break up. While it has helped, Greece's economic problems have not gone away. The economy has shrunk by a quarter in five years, and unemployment is about 25 percent. The bailout money mainly goes toward paying off Greece's international loans, rather than making its way into the economy. And the government still has a staggering debt load that it cannot begin to pay down unless a recovery takes hold. The government will now need to continue putting in place deep economic overhauls required by the bailout deal Prime Minister Alexis Tsipras brokered in August 2016, as well as the unwinding of capital controls introduced after political upheaval prompted a run on Greek banks. Greece's relations with Europe are in a fragile state, and several of its leaders are showing impatience, unlikely to tolerate the foot-dragging of past administrations. Under the terms of the bailout, Greece must continue to pass deep-reaching overhauls, many of them measures that were supposed to have been passed years ago."[84]

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[84] "Greece's Debt Crisis Explained", *The New York Times*, 17 June 2016.

7. Conclusion

The two bailouts attempts described here – the failed attempt in the nineteenth century and the effort made now in the twenty-first — have not ignored the obstinacy of Greece in relying on borrowing to fund much of its economic development, national ambitions and political consensus, without taking its fundamental financial solvency into consideration. It is clear that Greece's entry into the euro area precluded the use of the monetary policy instruments that had helped the country to overcome the financial crises of the past, when Athens had relied on its monetary sovereignty, notwithstanding the repeated failures and the receivership imposed by the European powers in 1898. The Maastricht Treaty ruled out many of the economic and financial tools that could have served to overcome this crisis.

An examination of history helps to illuminate the present. Many other European and non-European countries also failed in the past, but the Greek debt of the late nineteenth century, like that of the late twentieth century, led to the establishment of an international commission to control Greek finances. And in fact, we spoke of bankruptcy of Greece in 1893 as in 2010. Although the international context differed radically in the two cases, a receivership was established by the European powers and Greece was subjected to foreign control over its finances in order to ensure repayment of the debt.

Today's Troika consists of representatives of the International Monetary Fund, the European Commission and the European Central Bank, whereas the international committee of 1898 was formed by the single powers of Europe: Britain, France, Germany, Austria-Hungary, Russia and Italy. And even though at the end of the nineteenth century Greece was allowed to fail, whereas in 2010 it was saved, the practical result does not differ greatly: the consequences of the mistakes of the ruling circles – not only those who manage the money in Athens but also those in the rest of Europe who lend to Greece – have sharp, inexorable repercussions on the Greek people and imperil the stability of the whole continent.

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