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Abstract

This article presents and critically evaluates the four Greek sovereign defaults (1827, 1843, 1893 and 1932) and puts them into a historical perspective. The argument is that each and every 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 which were magnified during the downturn phases of the long waves of 1815-1845, 1873-1896, and 1921–1940. Crucial for the precipitation of these defaults were the short-sighted and often opportunistic policies followed by the Greek governments which were eager to increase public spending based on borrowed money which lead to mounting public debt. As a consequence, the past Greek sovereign defaults are worth studying in an effort to derive useful lessons and policy conclusions for the current and also future situations.

Key Words: Sovereign default, depressions, long waves, Greek economy

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

1. Introduction

The focus of this article is on a critical evaluation of the Greek sovereign defaults which occurred since the War of Independence against the Ottoman Empire, of 1821-1827. The main thesis of the paper is that the Greek economy, from the very beginning was well integrated into the world economic system and being a small economy it was affected by the ebbs and flows of the world economic activity. Generally, in the expansion stage, smaller economies may benefit but in the case of the world economy's contraction weak economies suffer the most, and they become even more default-prone. The four defaults of Greece teach important lessons to learn and also help us think of economic tools which can be utilized to ameliorate, if not to prevent this dismal state of affairs for the public benefit. Furthermore, we will argue that all the past serious economic downturns of 1815-1848, 1873-1896 and 1920-1940 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

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own right, but the lack of adequate data makes us focus more on the defaults of 1893 and 1932, and their aftermaths. It is important to stress at this point that also the slowdown in the economic activity in the 1970s and 1980s, that is, during the so-called silent depression led the Greek economy to the brink of the default. The same is true with the Great Recession that started in 2007 nearly led the economy to a certain default which was avoided, up until now, as a result of the European Union intervention and financial support.

The remainder of the paper is structured as follows: Section Two deals briefly with the defaults of 1827 and 1843. 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 in 1824 and 1825 of 2.8 million pounds through the London market 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 the bonds). Also, only twenty percent of the loans were in effect 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 the lack of sufficient public revenues and declared a default two years later. The international interest about the outcome of the Greek Revolution was also concerned about the money lent to the interim Greek government. Not accidentally, few months only after the default, the allied fleet of England, France and Russia destroyed the Ottoman armada in 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 condition of recognizing the independence of the New Greek State, by the Allies. Additionally, national lands where 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 which became a sovereign kingdom. The first king was the young Bavarian prince Otto, whose arrival was accompanied with a new loan of 60 million golden French francs. Most of the borrowed money, 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 on the provision of the infrastructure of the new state (G. Dertilis 2006, p. 123). Given the world depression of 1815-1845 (downturn phase of the first Kondratiev long wave) and the bad economic situation in Greece especially in 1840s and also taking into account that Greece did not receive the third installment from 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). The foreign private debtors pressed their governments to utilize every possible means to make Greece start repaying her international debt obligations. The military occupation of the port of Piraeus, by French and English naval forces during and after the Crimean War, from 1854 to 1857 followed by the imposition of a Memorandum (of Understanding) with a detailed list of policy measures that force Greece to meet her debt obligations. In addition, the foreign Governments placed their representatives into the key Greek Ministries in order to ensure the effective implementation of the agreements. It is important to emphasize that not only Greece but also a host of other countries defaulted during the recessionary phase of the first long wave, including almost all countries in Latin America.

The austerity measures that were taken in July of 1843 bear striking similarities with 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 there were not many pensioners, mainly military people and other public employees. The government also reduced its military expenditures and its public investment. Taxation was increased especially tariffs on imports. Further measures included the pardoning of illegal constructions which could be legalized by paying a certain amount of money and the same measure was applied on the occupiers of public lands who thus could take ownership. Moreover, the government, in order to maximize its tax revenues, decided that people's past tax obligations could be paid only as a fraction of the total due payments. 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 of the future royal expenses. Despite these dramatic changes, Greece remained a failed state which remained outside the international financial markets for 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 can be identified by falling prices, falling interest rates, and profit rates and also by 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 1847-1896. The salient feature of this downturn phase was its long duration and the fact that it was not deep enough to create massive business failures and lasting unemployment. If only this was true, the conditions of profitability would be 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 1815-1847 although it was more international; most likely it started in the advanced economies and soon expanded to include 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 Britain, Denmark and the Netherlands who kept low their import duties, 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 Corinth raisin) whose international demand was rising for purely conjectural reasons.[3] 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 with no strong domestic or international connections. This was not true though 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 creating inflationary pressures or taxing and impoverishing people. By the end of 1885 Greece was, once again, in war preparations, and therefore, she run budget deficits with her monetary policy completely out of control. Thus, though Greece managed in the year 1885 to stay on the gold standard for nearly nine months from the end of the same year onwards, she was forced to run large budget deficits, thereby accumulating a huge debt.

Strange as it may seem, the Prime Minister Harilaos Trikoupis, during his seven (non-consecutive) mandates from 1875 to 1895, in spite of his liberal beliefs in classical economic theory of minimal government interference in the economy; nevertheless, he thought that liberalism could be effective once a country attains 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 first to initiate the conditions that will lead to economic growth, which in the absence of a strong private sector can only come via a strong 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, distribution of justice and provision of money). Economic growth required the creation of a large-scale infrastructure investment projects (road and railway networks, harbors, desiccative works and the like) and also tax reforms and the reorganization of the state and the army. The financing of this unquestionably ambitious program was made mainly through international loans. Such financing was much easier than one would think for mainly 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 investment opportunities. Thus, the somewhat higher interest rates

[3] For a quick overview of the "phylloxera plague" in Southern France in the 1860s, Hobsbawm (1987).

offered by the Greek government were lucrative enough for the Europeans 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 it the future taxes. 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 Greece during those years 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 a single sector exporting agricultural economy with raisins as 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 up 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 on modern infrastructure (railroads harbors and the Corinth canal), Trikoupis reformed completely 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, before Trikoupis, in 1871, indirect taxation 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 Greek GDP (G. Dertilis 2006 pp. 714 and 722; Tsoulfidis 2015, pp. 206-7). At the same time, Trikoupis made valiant efforts to attract entrepreneurs of the Greek Diaspora; in fact he managed to do that without any preconditions. 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 obtain foreign financing and the Greek political leaders worked very hard to obtain the fourth loan in 1879 amounting to 60 million golden French 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 pre-condition for the ratification of the Treaty was that the German lenders would be repaid for the loan of 1832. Also, all the individual investors who bought Greek bonds on the secondary market at trivial prices (at 5 percent of their nominal value) should be repaid. The Greek administration, as all before and after, faced the same harsh dilemma: the lenders in the world financial markets are only a few and they lent out their money collectively. Thus, when a government is in need of financing, then new loans may be granted if and only if all the previous loans are fully served including whatever interests in the meantime have been accumulated. The new loans, by and large, carry higher interest rate than those of other safe borrowers for obvious reasons. Under these conditions, Greece borrowed 639.7 million French francs from abroad multiplying thus the external debt of the country by seven. 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 the previous loans (Tsoulfidis 2015, pp. 204-205).

The world economic crisis that was underway already from 1873 did not leave the Greek economy unaffected whose exports of raisins collapsed in 1890 together with the foreign exchange reserves. The result was that the government had not adequate foreign reserves to redeem its huge annual debt obligations to its lenders. Trikoupis made an international effort for new loans but in vain and in December of 1893 declared default when the annual debt obligations exceeded 50% of public revenues; the public debt was mounting and as a percentage of GDP reached the level of 220 percent as shown in Figure 1, below.

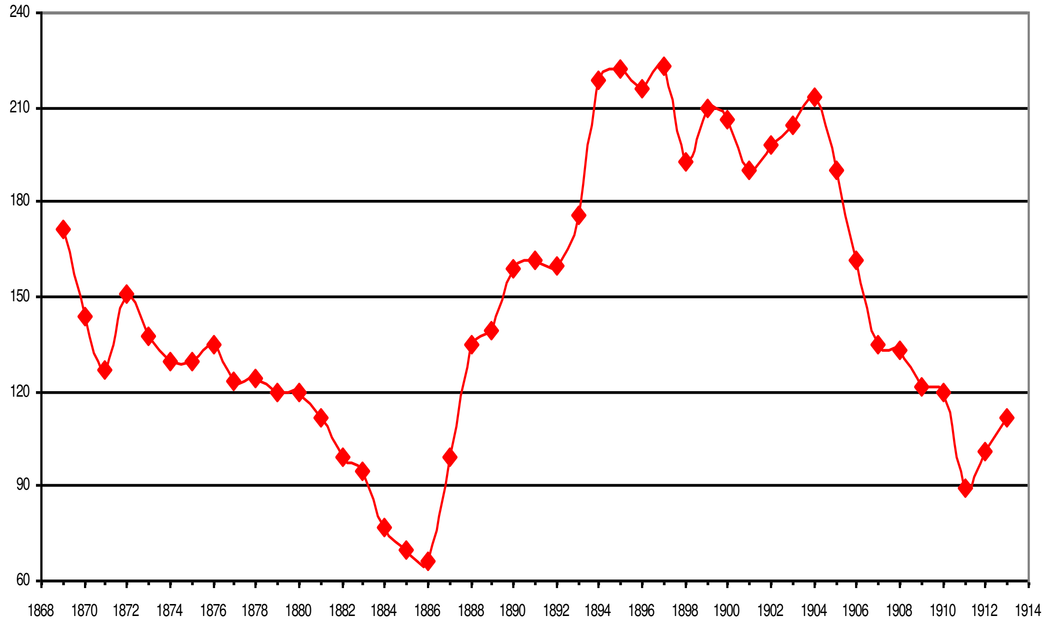

Figure 1. Public debt as percentage of GNP, 1869-1913[4]

The economic policy measures that were taken immediately after the default included the payments of interest to the foreigner lenders at 30 percent. They excluded the domestic bondholders, mainly the Greek banks. In the negotiations with the foreigner lenders in Paris in 1896, a what nowadays is known as 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 the tobacco, to the foreigner lenders. The negotiations failed because of excessive demands on behalf of the lenders who asked from their respective governments to apply pressure on the Greek government for the full repayment of her loans.

It has been argued that the War of 1897 between Greece and the Ottoman Empire was encouraged by the lender countries. The latter did not need to try hard to achieve such a goal; this because during those turbulent years and with the question of the Cretan autonomy from the Ottoman Empire open, many hyper-patriotic individuals were acting as to increase tensions in the borders between the two countries. The reasons for friction there 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"

[4] The data for debt come from Reinhart and Rogoff (2011) and the GDP from Kostelenos et al. (2007).

immediately. Hostilities ceased at once, and Greece came out from the war, almost without territorial losses, but the humiliating war indemnity to the Ottoman Empire was added to her past obligations. Finally, Greece accepted still another humiliation, the presence of International Financial Commission (IFC) whose members 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, the GDP grew annually at 4.2% and the Greek drachma became once again a strong currency and in 1910 attained parity with the French franc which was the money of international exchanges (Tsoulfidis 2015, p. 234). The IFC remained in Greece formally until after World War II, and while it was replaced by the Monetary Committee of 1946, the IFC formally expired in 1977!

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 the World War I, huge external debts of European vis-à-vis to the US, the collapse of the 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 absorb the rise of productivity in the first quarter of the twentieth century (Graff et al. 2014, p. 207). The downturn spiral after 1929 is commonly described in the following chain of events: falling prices-bankruptcies-falling industrial production- rising bank default rates- rising unemployment and social misery. Moreover, the hitherto most severe economic crisis nurtured totalitarian regimes all over 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 spread among capitalist countries, in effect, they were much worse in the USA, Austria, Germany and France, where negative growth rates in the real GDP varied between 20 and 30% from 1929 to 1938; the consequences were less severe in Great Britain, Belgium, the Netherlands; and even less in Greece where the growth rate of the real GDP was negative only for the years 1931 (-0.87%) and 1932 (-2.96%), and from 1933 rebounded to positive average growth rates of 5.6% for the remaining years (see Figure 2, below). The crisis reached Greece mainly through the slowdown in international demand for her chief agricultural products mainly raisins and tobacco (which represented almost 10% of the GDP and 70% of the value of her exports). The money transfers of Greek emigrants and mariners decreased also dramatically. Our estimates show that in 1930 the remittances were 10.08% 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 her external debt. On further consideration, however, we conclude that during the crucial depression years, 1929-1932, Greece did not suffer such dramatic consequences in terms of output and employment, as other countries in Europe. In particular, her manufacturing production in 1932 on average was somewhat higher than that in 1929. However, this is not true if we consider every single branch of the manufacturing, neither if one looks at the Greek economy as a whole (Tsoulfidis 2015, 285-6). The good performance of many manufacturing branches had to do with the government's industrial policy and the low wages, a result of the surplus labor after the Asia-Minor expedition disaster in 1922 and the arrival of 1.23 million Greek refugees.

In brief, the crisis affected asymmetrically different sectors of the Greek economy. The agricultural production was growing on average during 1922-1928 and experienced a significant fall during the 1929-1932 (see Figure 2). Concerning employment, even if the official statistics underestimate unemployment, at its worse level, tripled between 1928 and 1932, but remained rather low at 8.6 percent (Tsoulfidis 2015, p. 275).[5] Furthermore, unemployment was intensified for specific reasons, such as the new industrial organization in 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 the city dwellers diminished only slightly (Tsoulfidis 2015, pp. 275-6).

In Figure 2 we observe that real GDP is stagnant in the period 1922-1931. This is particularly true in the agricultural sector of the economy which up until the

[5] Extreme caution should be applied in the interpretations of such a percentage. First, because the number of unemployed, although more than tripled in 1932 compared to 1928, they are estimated against the civilian population and not on the labor force. Second, the population in Greece was mainly agricultural; as a result the unemployment statistics do not convey the exact same meaning as they do nowadays.

year 1931, the worst year for the agricultural production. Real GDP increases thereafter. On the basis of the available data, it becomes clear that during the worse years of the world economic crisis 1929-1932 Greece was not affected as severely as were many other countries. A few years prior to the collapse of the stock market there were systematic efforts to reform the Greek economy through new institutions such as the establishment of the central Bank of Greece, and also specific policy measures aiming at the protection of domestic production, monetary stability (at inflation and exchange rates), which contributed to the expansion of domestic production and especially agricultural, which within the period 1931-1937 doubled its production in an effort that Greece should achieve autarchy. Taking the full period 1929-1938 into account the agricultural production increased at the annual rate of 8.24 percent while the total economy increased at the annual growth rate of 3.94 percent (Tsoulfidis 2015, p.273).

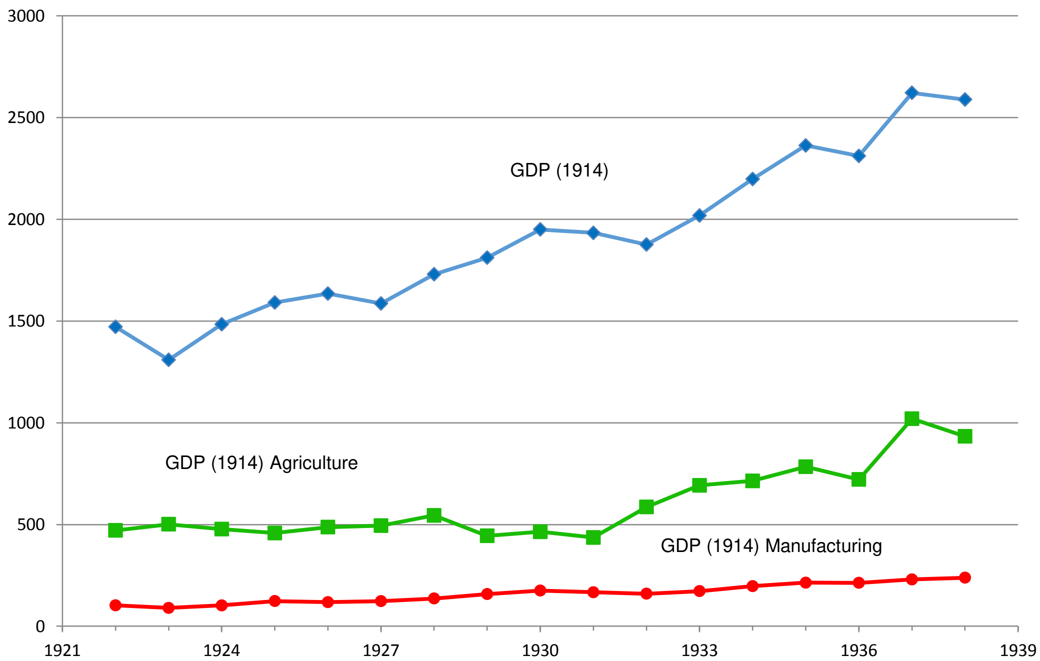

Figure 2. GDP of the Greek Economy, total and sectoral, 1922-1938

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 program of public infrastructure investments. The main idea was that the expected revenues from investment would allow the future settlement of debt that accumulated in dangerous proportions. The burden of annual debt obligations is displayed in Figure 3 below along with government expenditures as a percentage of the GDP and the budget deficit or surplus as a percentage of the GDP. The size of debt plays an important role in the way a country responds effectively to her international obligations. However, in the event of a recession when the exports of a country sink, the available foreign exchange reserves remain short for the settlement of redemption of the debt. Consequently, the government has no other option, but to search for new loans, otherwise, the bankruptcy becomes inevitable.

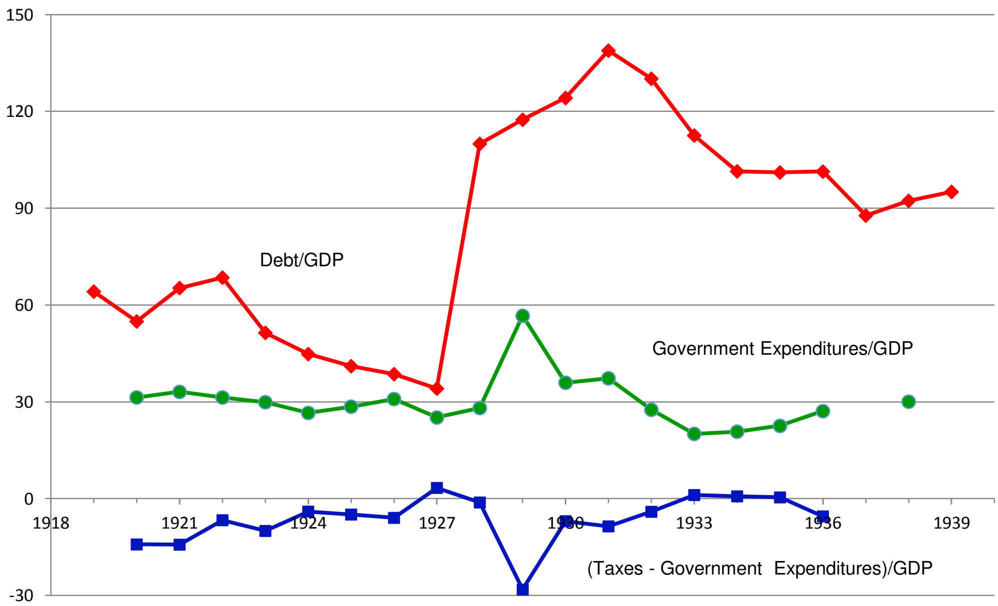

Figure 3. Public Debt, Government Expenditures, and Budget Deficit or Surplus as a percentage of the GDP, 1919-1939

The data for public debt comes from Reinhart and Rogoff (2011); they are quite similar to those reported by Mazower (2002, p. 397), at least for the crucial 1928-1936 period. From the same source Mazower (2002) we got the data for government expenditures and tax revenues. Finally, the data for GDP comes from Kostelenos et al. (2007).

The Depression of 1929 has literary 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 into his “hard drachma” doctrine keeping the national currency fixed and pegged to the Gold exchange standard with grave consequences for the worsening of the depression and the ability to servicing the 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 more or less stable the level of deposits in foreign exchange. Despite the closure of the Athens Stock Exchange, and the rise of interest rates from 9 to 12%, the outflow of money, foreign reserves and gold continued. The gold backing of drachma was reduced to less than 27% (from the desired minimum of 40%) within few weeks in the beginnings of 1932. When the annual debt obligations grew up to 70% of the government budget, in April 1932 and no "haircut" was accepted by the lenders, Venizelos had to take a number of strong monetary measures: bail-in vis-à-vis the Greek creditors, refusal to pay back the payments to external creditors, devaluation of the drachma by 60%, withdraw of the national currency from the international markets and finally the declaration of sovereign default on 26/4/1932 (Psalidopoulos 1989, pp. 89-90). That was the fourth bankruptcy of the Greek State and the first in the twentieth century.

Greece reversed the outflow of money and in order to survive followed a policy of autarchy encouraging the growth of domestic production. The recovery came quite early, but too late for Venizelos who lost the elections in November 1932. The 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 were used for public works. The opposition Populist Party followed a strong interventionist, nationalist, and sectarian policy to amplify the social consequences of the crisis and neutralize the political upheavals. In vain, within three years, 1933-36, there were three military coups, three general elections, five different Governments and six major political leaders passed away. 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 inaugurated by Venizelos’ Finance Minister Varvaressos, maintaining some members of the previous political and financial establishment. The protection of industry was intensified, some 567 new factories were built while the labor movement was crushed and its leaders persecuted. In 1937, Greece’s industrial production was 51% higher than that of 1929! The agricultural production recovered thanks to the forgiveness of defaulted agricultural debts; it also enjoyed the protection from foreign competition. As seen in Figure 3 above, the agricultural GDP grew at an annual rate of 7.8% between 1932 and 1938. By 1935, the Greek agricultural GDP covered the 78% of the domestic aggregate 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.[6]

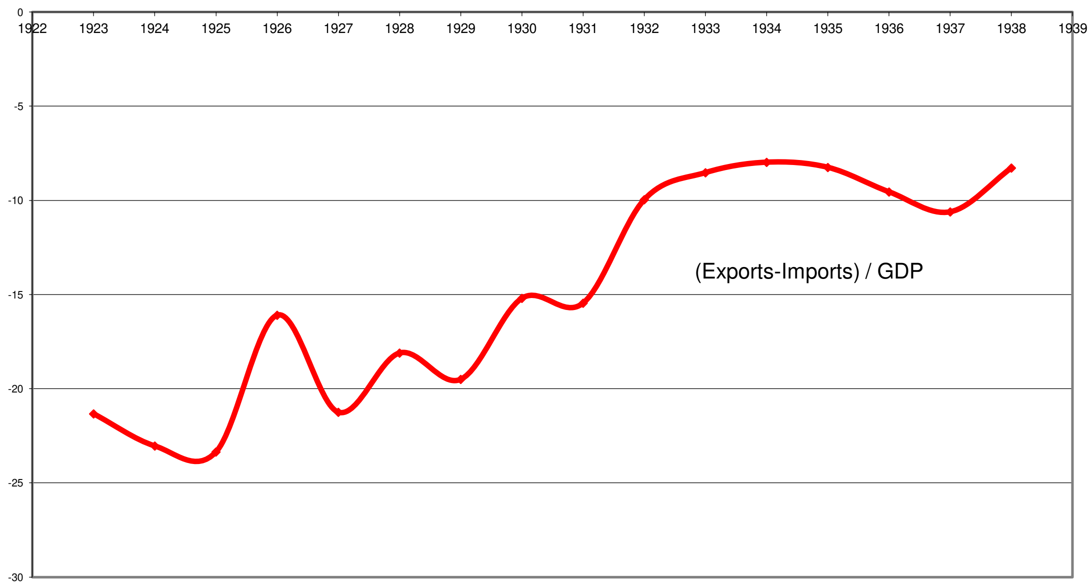

Figure 4. Net trade balance as a share in GDP 1922-1939

5. Concluding Remarks

The study of the Greek sovereign defaults reveals that they were not isolated incidences in the turbulent economic history of capitalism, but rather they took place during the downturn of the world economic activity along with the defaults of a number of other countries. In general, history teaches that sovereign defaults take place in higher frequency during the downturns of long economic cycles as we learn from the five long waves in a time period spanning nearly two centuries and a half. 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. In particular, this was the case of Spain and Italy, two

[6] Greece exported tobacco and cigarettes to Germany in exchange for agricultural tools and military ammunitions. The clearing trading agreements were widespread during the late 1930s.

supposedly large and strong economies; also Ireland, Portugal, and Greece three countries with not so strong economies, which would certainly have 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 necessarily the world economy being in the depressionary stage of its long wave. From the above we do not mean that sovereign defaults are like natural phenomena created by global depressions. Quite the opposite, we simply argue that sovereign defaults reveal the chronic problems, 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 period 1824-1939, we derive that 70 percent of the loans were used for consumption purposes (including military ones) and out of this 70 percent, 16 percent was used for the issuance expenses. If we also take into account the domestic loans then the non-productive uses of total loans represent up to 91 percent (Koulis 1968, p. 281). It is important to note that all the domestic loans in the Post-WWII period were really extinguished from 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 in terms of the new drachma. The 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 the GDP ranged in the 1950s from 12.8 to 20.9 percent of the GDP in 1964 (P. Dertilis 1968, p. 219).

This situation changed by the end of the 1970s when the public debt started its upward movement and by the end of the 1980s, Greece came very close to default 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 direction up until 2001, when Greece became a member of the Eurozone. In the years that followed the public debt increased and became unmanageable with the start of the Great Recession in 2007 so the first Memorandum was instituted in 2010.[7] In a comparison with the sovereign defaults of 1893 and 1932, the economic consequences are 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.

The internal economic problems due to the everlasting structural inefficiencies of the Greek economy (tax evasion, a deficient pension system, low competitiveness) were created by incompetent political elites aiming at their reproduction and perpetuated through a clientelistic bondage with the electorate. We have revealed here the importance of international fluctuations and crises. Instead of dealing with the serious economic problems, aiming at a more equitable income distribution through progressive taxation and the direction of public (and to a certain extent private) expenditures towards infrastructure and productive investment in general, the 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 and evolved under a permanent pressure by its creditors to modernize its institutional framework. Because of these above characteristics of Greece 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 in the danger 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 inexorable economic-cum-political regularities underneath the observed phenomena.

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[7] Following the rich terminology of defaults, we could call the default of Greece to pay loan obligations to the IMF in June 2015 as an "excusable default".

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