

# Greece and the EU: A Cautionary Tale of Debt, Deception, and Dysfunction

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## ABSTRACT

This paper examines Greece's economic history from World War II through the 2010s, with a particular focus on the late twentieth and the first decade and a half of the twenty-first centuries. It explores the country's long-standing financial instability, its approach to EU membership, and the broader implications of its economic crises for the European Union. The paper first outlines Greece's historical economic weaknesses and the policies that led to rapid but short-lived economic growth. It then analyses Greece's accession process from 1961 to 1981 and argues that its years as a member were marked by widespread economic mismanagement and corruption, which the country systematically concealed from the EU to maximize the benefits of Eurozone membership. The sovereign debt crisis of 2008-2009 ultimately exposed Greece's financial vulnerabilities and deceptive accounting practices, forcing the EU and IMF to issue multiple bailouts. These interventions led to harsh austerity measures, sparking widespread social and political instability. Greece's financial collapse compelled the EU to reassess its Eurozone policies, implement stricter financial oversight mechanisms, and reopen discussions about the possibility of removing economically unstable members from the Eurozone.

A decade and a half ago, Greece caught the world's attention after the global economic meltdown of 2008. What was particularly troublesome for many was the shocking rise of the neo-fascist Golden Dawn party due in part to austerity measures that some

believed were forced on the government by the European Union (EU) to avoid defaulting on the country's staggering loans.<sup>1</sup> It should not come as a surprise to anyone with some knowledge of the history of the EU that Greece has not been a compliant or team player in the Community since its initial application for entry to the Economic Community in 1961.<sup>2</sup> However, the case of Greece, while extreme by some measures, is not really an outlier in the relationships between individual members and the Union itself. The Greek experience in the economic crises between 2008 and 2015 represents the philosophy that each member, while paying lip service to the unity and teamwork touted by the EU and its supporters, actually uses and abuses the organisation to achieve narrow national interests. Furthermore, short-term national interests tend to trump longer term group interests in such a way that renders Union policy and practices ineffective and ultimately questionable.

In order to defend this postulation, an examination of the Greek economy from the Second World War to 2015 illustrates the cynical nature of its EC/EU membership. After a potentially promising start in the post-civil war era (after 1949), the 21<sup>st</sup> century Greek economy can best be described as a fiscal basket case as increasing and more expansive entitlements and government expenditures steadily forced public debt to rise beyond any viable solution. The state's overfocus on welfare programs at the expense of fiscal responsibility created and maintained a culture of government dependence, which could only be sustained by the largesse of creditors, including the

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<sup>1</sup> According to the 2024 edition of the CIA's World Factbook, Greece scored second of all countries in its percentage of public debt in 2022, which was 203% of the country's Gross Domestic Product. (<https://www.cia.gov/the-world-factbook/field/public-debt/country-comparison/>). Furthermore, its government consumption was fully 20.1% of its GDP (estimated 2017) and it continued to regularly show negative account balances of tens of billions of dollars. More recent estimates (2018 and 2019) show the country with an external debt of approximately \$480 billion (<https://www.cia.gov/the-world-factbook/countries/greece/#economy>).

<sup>2</sup> For more information on the accession agreement, see *Accord relatif aux mesures à prendre et aux procédures à suivre pour l'application de l'accord créant une association entre la Communauté économique européenne et la Grèce*, 9 July 1961 (63/111/CEE).

European Union (EU) and the International Monetary Fund (IMF). Austerity measures attempted by the government to introduce fiscal responsibility met with mass protests and anti-government activity that threatened not only the social, economic, and political stability of the country, but that of the European Union itself. Such a problematic member should force the EU into considering a mechanism in which countries that do not follow the rules – rules strictly imposed on its newer members in Eastern Europe – be excluded from decision making bodies, forfeit the rotating presidency, become ineligible to secure loans from the EU or any of its members, or, due to protracted flippancy regarding said rules, be banished from the institution altogether.

Since its independence from the Ottoman Empire, the Greek government “has been characterised by instability.”<sup>3</sup> In terms of national debt and the state’s attempts to manage it, Greece spent “more than half the years since 1832 (...) in default.” Historical economists have argued that “pervasive state control of the economy, a large and inefficient public administration, endemic tax evasion, and widespread political clientelism” have always been part and parcel of the Greek experience.<sup>4</sup> In fact, modern Greek history is filled with instances of economic mismanagement, staggering government debt, and loan default and restructuring since the mid-19<sup>th</sup> century, finding “itself virtually in continual default” since its independence, defaulting and/or rescheduling its debt five times (in 1826, 1843, 1860, 1893 and 1932) before the Second World War.<sup>5</sup>

With this long history of debt and default, it was not surprising that the state underwent significant economic instability and uncertainty during and after the war. Immediately following the conflict, Greece plunged into a civil war lasting from 1945 to 1949, and continued to suffer political instability until 1952. The postwar govern-

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<sup>3</sup> G. Kaloudis (2000), pp. 36-37.

<sup>4</sup> R.M. Nelson et al. (2011), 18 August, p. 2.

<sup>5</sup> In fact, as of 2009, the state spent a total of over 50 years in default or rescheduling (C.M. Reinhart, K.S. Rogoff, 2009, pp. 91, 96, and 99).

ment faced a number of debilitating challenges, including out of control inflation, persistent underdevelopment, and a negative balance of payments. Greece was dependent on the United States for military and economic support during and after the Greek Civil War, and as a result, by 1950, the government was actively supporting 34% of its population through subsidies or government employment.<sup>6</sup>

In 1953 Athens' rightist government took its first step towards solving these problems by devaluing the drachma vis-à-vis the dollar. Policymakers hoped this would boost exports, and consequently expand the export-oriented industry, as well as increase foreign exchange reserves. The government also abolished some trade quotas, and created a credit policy formulated to assist economic sectors considered vital for development. While this produced some initially painful conditions for Greek businesses and banking, the tight monetary policy, coupled with low liquidity in the banking sector, resulted in lower inflation; by the end of 1955, the inflation rate fell to 5.5% and showed every indication of dropping further.

Additionally, between 1953 and 1955, Greece saw a notable improvement in its balance of payments, with official reserves increasing by 70%. During the same period, the country's real Gross National Product (GNP) grew at an average annual rate of 9%. These positive results boosted confidence in the Greek economy, leading private citizens to deposit more money into banks. This, in turn, increased liquidity and reduced reliance on the central bank. Between 1956 and 1962, Greece maintained strong economic growth, with an average yearly GNP increase of 8.5%. Furthermore, from 1960 to 1964, rising global inflation effectively undervalued the drachma, enhancing Greece's competitive position in international markets. As a result, the country experienced steady export growth, averaging a 5.7% annual increase in export value between 1956 and 1964.<sup>7</sup>

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<sup>6</sup> The government created a program to utilize Truman Doctrine funds available to European states to build a larger military, publicly invest in infrastructure, and use foreign capital to further industrialization (T. Vetta, 2014, p. 4).

<sup>7</sup> A.P. Papadopoulos (1991), pp. 187-205.

It would continue to grow from 44% of the EU15's GDP in 1960 to almost 64% in 1970, in part due to the influx of foreign capital and investments.<sup>8</sup>

In an additional effort to promote economic stabilization and growth, monetary authorities imposed obligations on the banking sector to “finance gross domestic fixed capital formation in industry (...) to finance public investment in programs and finally to redistribute credit among the financial institutions in a manner which could guarantee its productive use.”<sup>9</sup> Some of the obligations included a credit ceiling for various sectors and a requirement for banks to “invest 15% of their reserves in industries in the form of medium-term loans.” In addition, they had to invest nearly a quarter of their private deposits in treasury bills, dramatically altering the nature of government debt with respect to domestic and foreign borrowing sources.<sup>10</sup>

Additionally, the government of Prime Minister George Papandreou implemented reforms in welfare, education, health, and economic policies, which significantly contributed to a massive increase in government expenditures without the necessary revenues to fund them. Between 1963 and 1964, civilian expenditures rose sharply by more than 25%. As a result of increasing long-frozen wages and salaries for public servants, general administration expenditures also ballooned.<sup>11</sup>

A budding constitutional crisis in 1965, too, added to the state's woes. In an event commonly called the “Apostasia of 1965” King Constantine II dismissed the newly elected Papandreou due to rightist fears of communist influence seeping into domestic and economic policy. Over the course of the next two years, political wrangling and instability plagued the Greek government, which eventually led to a *coup d'état* by a faction of the military on 21 April 1967.<sup>12</sup> Coun-

<sup>8</sup> Vetta, cit.

<sup>9</sup> Papadopoulos, cit., p. 189.

<sup>10</sup> Papadopoulos, cit., p. 199.

<sup>11</sup> N.A. Michas (1980), p. 40.

<sup>12</sup> For more on the military coup and its legacy on Greek politics, economy, and society,

tries like the United States, West Germany, and the United Kingdom, while criticising the rule of the Colonels, backed the regime, hoping it would remain in the Council and continue its membership in NATO due to its strategic location to contain communism.<sup>13</sup> Nevertheless, the junta distanced itself from Western Europe and the European Community, even withdrawing from the Council of Europe in response to an investigation into its human rights violations.<sup>14</sup>

Domestically, the regime's initial economic measures focused on restricting labour unrest, imposing price controls, and freezing wages. As a result, inflation declined and remained below the global average until 1972. When the Bretton Woods System collapsed and fixed exchange rates were abandoned in August 1971, Greek monetary authorities maintained the drachma's parity with the dollar. This effectively devalued it against most European currencies. Tight monetary policies led to an excess demand for currency, resulting in capital inflows, greater reserve accumulation, and continued low domestic inflation.<sup>15</sup>

During this period, Greece continued to sustain high economic growth rates until 1973, partly driven by public works projects and a continued, but declining, foreign tourism industry.<sup>16</sup> However, corruption persisted much as it had under previous Greek governments.<sup>17</sup> Initially the regime attempted to secure support and legitimacy for its rule by appealing to traditional Greek values, Greece's legacy of forging Western Civilization, and anti-communism.<sup>18</sup> When this failed, it resorted to old-fashioned economic corruption and graft, in part by forgiving loans and granting subsidies to favoured businesses and industries and making nepotistic polit-

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see S. Xydis (1974), pp. 507-538; D. Sotiropoulos (2010), pp. 449-465; A. Klapsis et al. (2020); N. Gage, E. Kulukundis (1970), pp. 475-497.

<sup>13</sup> One can clearly see this in A. Nafpliotis, (2014), p. 67; A. Nafpliotis (2012); E. Pedaliu (2007), pp. 185-214.

<sup>14</sup> E. Pedaliu (2016), pp. 1014-1039.

<sup>15</sup> Papadopoulos, *cit.*, pp. 200-201.

<sup>16</sup> P. Michaelides, T. Papageorgiou, A. Vouldis (1995), pp. 148-149, 154; Kaloudis, p. 41.

<sup>17</sup> Kaloudis, *cit.*, p. 42.

<sup>18</sup> C. Arvanitopoulos, (1991), pp. 106-107.

ical appointments.<sup>19</sup>

By January 1973, growing public pressure pushed the government to restore democracy and reform economic policies. In an attempt to maintain its power and legitimacy, the junta shifted from the restrictive policies of 1972 to an expansionary, money-financed fiscal policy. It lifted price controls on various consumer goods and imports and revalued the drachma against the dollar by 10%.<sup>20</sup> These changes, combined with the 1973 oil crisis, led to a sharp increase in inflation, which soared to 25%, well above the rates of Western economies. Inflation remained above 10% for more than two decades.<sup>21</sup> Additionally, the revaluation of the drachma worsened the current account deficit, causing it to rise from \$367.8 million to nearly \$1.2 billion.<sup>22</sup>

The military government tried its hardest in November 1973 to reestablish both economic and political control, but the sharp decrease in the money supply at the end of June 1974 coupled with the Cyprus crisis put the government in a serious economic and political bind. With the government's support of the Greek military coup in Cyprus in 1974 and the resulting war with Türkiye, foreign capital sharply declined, hurting the tourist industry. Because the economy's balance of payments rested on the continued influx of foreign investment and the money earned from tourism, recovery during the late rule of the Greek Colonels looked particularly bleak.<sup>23</sup> Thus, a counterrevolution in July 1974 forced the reestablishment of a government more accountable to the public.<sup>24</sup>

The new government sought to secure free-market conditions that would be synonymous with economic stabilisation. It restored free wage bargaining, abolished price controls, and, in response to

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<sup>19</sup> Arvanitopoulos, p. 114; M.R. Johnson (2018), p. 5.

<sup>20</sup> Papadopoulos, cit., p. 201.

<sup>21</sup> T. Hirst (2015).

<sup>22</sup> Papadopoulos, cit., p. 201.

<sup>23</sup> Michas, cit., p. 40.

<sup>24</sup> Papadopoulos, cit., p. 201. For a discussion on the fall of the Colonels and the effect of the junta on Greek politics, see I. Tzortzis (2020).

the effects of the Cyprus crisis, carried out expansionary policies to bring about a recovery in demand and output. As a result, real GNP fell by 3.9% and inflation rose to 23.8% during 1974.<sup>25</sup> In addition, “the world crisis severely affected sectors which (...) [depended on significant] economic growth, such as shipping and immigration transfers. Therefore, [Greece] had to look [to] foreign borrowing.”<sup>26</sup>

Recognising this supposed necessity, policy makers uncoupled the drachma from the dollar in March 1975, hoping to “operate a ‘controlled float.’” They depreciated the currency at first by 6.5% and then by 21%. The slowed expansion in domestic credit led to an improvement in the balance of payments, and inflation fell to 12.5% by the end of the year. The expansionary fiscal policy continued into 1977, resulting in an increase in real GNP at an average rate of 5.5%. A reintroduction of price controls at the beginning of 1976 helped keep the inflation rate from rising above 12%.<sup>27</sup> Between 1976 and 1979, the primary concern of the government “was to reconcile [its] objective to reduce the rate of inflation with the need to finance increasing government deficits.” But money-financed deficits and the allocation of credit to primarily unproductive areas of the private sector contributed significantly to the rising inflation rate which eventually reached 18%.<sup>28</sup>

The Greek economy suffered another blow during the second oil crisis of 1979. In response, the New Democracy government, which had led the country since the collapse of the junta, sought to mitigate the economic strain on the population by increasing expenditures on social services.<sup>29</sup> However, domestic economic conditions deteriorated in 1980 and 1981 due to an expansionary fiscal policy that caused public sector borrowing to double compared to 1979,

<sup>25</sup> Papadopoulos, *cit.*, pp. 201-202.

<sup>26</sup> V. Patronis, P. Liargovas (2004), p. 122.

<sup>27</sup> Papadopoulos, *cit.*, p. 202. It should be noted that at this time inflation rates of the major industrial countries were showing a downward trend – thus it can be argued that inflationary pressures in the Greek economy came from domestic sources.

<sup>28</sup> Papadopoulos, *cit.*, p. 202.

<sup>29</sup> Vetta, *cit.*, p. 12.

pushing debt from approximately 9% of GDP to 19%. As a result, real GNP growth slowed to just 1.5% in 1980 and came to a standstill the following year. Inflation also surged to a record high of 25%.<sup>30</sup>

The postwar Greek economy, which had shown promising signs of growth, faced another growing long-term crisis. As a result, the populist Pan-Hellenic Socialist Movement (PASOK) was voted into power in 1981, and its policies exacerbated the crisis as the new “government borrowed heavily to finance its populist program of state spending,” which included “substantial wage and pension increases for civil servants (...) and expansions in public sector employment financed by the issuance of government debt, which banks were required to buy at negative nominal interest rates set by the state.”<sup>31</sup> These policies coincided with a collapse of worker productivity growth.<sup>32</sup> One of the ways some Greek economists and politicians sought to reverse this trend was to take advantage of the renewed drive to revitalize the EC.

## The Politics of Greek Accession

Greece had already taken steps to join the European Economic Community in 1961 by becoming the first state to sign an Association Agreement (AA) with the young organisation.<sup>33</sup> When the military

<sup>30</sup> Papadopoulos, cit., pp. 203-204.

<sup>31</sup> This policy was a continuation of New Democracy’s approach to maintaining low interest rates on loans, making it easier for the government to acquire credit and manage debt financing (Vetta, p. 13).

<sup>32</sup> Hirst, cit.

<sup>33</sup> *Official Journal of the European Communities*, No. 26, 1963; M. Tsinisizelis (2024). For more information on the Greek accession process, see “Association between the European Economic Community and Greece. First report on the activity of the Association Council to the Parliamentary Committee of the Association”, 1 November 1962-31 October 1963; and “Association between the European Economic Community and Greece. Second report on the activity of the Association Council to the Parliamentary Committee of the Association”, 1 November 1963-31 December 1964. For information on the post-junta Greek accession process see “Accession Negotiations with Greece-Secondary Legislation” [1977] [2]; and Association Council Greece-EEC [1963, 1965-66, 1977-79] [8]. Perhaps prophetic, in 1965, one Greek economist, S.G. Triantis, argued that Greek

regime took over from 1967 to 1974, the EC Parliament suggested that the accession talks with Greece be suspended until a restoration of democracy occurred.<sup>34</sup> The EC Commission, with the support of the Council, partly froze the Agreement as a reaction to the country's internal political climate.<sup>35</sup> However, with Greece's return to democracy in July 1974 under the leadership of former Prime Minister Constantine Karamanlis, the new government pushed for a rapid reinstatement of the original association agreement. At first the renewed accession process looked to be a rather long-term goal as Greece was "desperately poor, with a per capita income less than 25% of the EC average." Karamanlis believed that entry would be the key to Greece's international rehabilitation, political stabilisation, and economic modernisation; he also hoped that membership would bolster Greek security due to the heightened tensions with Türkiye that did not dissipate with the change of government.<sup>36</sup>

On the one hand, many member states responded positively to Greece's renewed drive for membership, seeing it as a way to regain enthusiasm for the community. On the other hand, the more cautious Commission released an opinion in January 1976 that emphasised serious problems in agriculture, competition policy, and state aid. It recommended a lengthy pre-accession period, considering the country's poverty and the potential impact its membership would have on EC relations with Türkiye.<sup>37</sup> In other words, Greece was nowhere near ready to assume membership.

Neither the Greek government nor the Council reacted favourably to the Commission's opinion. In fact, the Council hastily

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membership in the EEC would not be nearly as beneficial as the government and other economists assumed it would (Common Market and Economic Development (Athens: Center of Planning and Economic Research, 1965)).

<sup>34</sup> Résolution du Parlement européen sur l'association entre la C.E.E. et la Grèce (2 juin 1967).

<sup>35</sup> V. Coufoudakis (1977), pp. 114-130.

<sup>36</sup> D. Dinan (2004), p. 169.

<sup>37</sup> "Commission opinion on the Greek request for membership". Information Memo P-10/76, January 1976.

endorsed the Greek application the following month,<sup>38</sup> with near unqualified support for Greece's rapid entry from Italy and Germany, with some resistance from Britain.<sup>39</sup> Later, when Portugal and Spain began accession negotiations in 1978 and 1979 respectively, the Council realised the potentially negative impact of taking on a large-scale Mediterranean enlargement. Too late did the ministers of the member countries recognise Greece as a potentially serious drain on EC resources. But Karamanlis was determined for Greece to achieve membership as quickly as possible, embarking on a tour of member capitals in 1978 to press for Greek accession.<sup>40</sup> He claimed that the original agreement of 1961, which he argued had all but guaranteed Greek membership in the EC by 1984, was proof that Greece deserved special treatment *vis-à-vis* the two new Mediterranean applicants.<sup>41</sup> His greatest task lay in convincing French President Valéry Giscard d'Estaing; he finally succeeded, and in February 1978 Giscard urged the Council to allow Greek membership by 1980.<sup>42</sup>

After his approval, the second stage of accession negotiations proceeded quickly, and the accession treaty was signed in Athens in May 1979. The Greek government ratified it easily in spite of the Socialist Party's opposition, and the country became the EC's 10th member in January 1981.<sup>43</sup>

<sup>38</sup> Press release by the Council on Greece's application for accession to the European Communities (9 February 1976).

<sup>39</sup> L. Tsoukalis (1978), pp. 440-441.

<sup>40</sup> Tsoukalis, *cit.*, p. 442.

<sup>41</sup> K.E. Botsiou, "Greece's Road to European integration: From Cold War frontline state to EC/EU-membership", Danish Institute for International Studies (2 June 2014), 5 and "Democracy Remains Unhealthy in Its Birthplace", *The Wall Street Journal* (26 July 1999).

<sup>42</sup> E. Karamouzi, "The Argument that Greece was granted EEC accession prematurely ignores the historical context in which the decision was made", *London School of Economics*, 25 November 2014. This illustrates one of the biggest lingering hypocrisies with the EC/EU: the continued power of national interests despite its supposed focus on supranationalism. Time and again, as in the case of d'Estaing's support for rapid Greek accession to the EC, state leaders, who make up the powerful Council, overrule the more supranational Commission and impose "national" will on the organization.

<sup>43</sup> Dinan, *cit.*, pp. 169-171.

## The Economics of Greece's EC Membership and the CAP

Immediately following Greece's accession, PASOK came to power, sparking a sharp increase in government spending and thus a much higher budget deficit.<sup>44</sup> Part of the party's plan was to intensify the previous government's attempts at bringing in more leftists into the economy by creating stable government employment opportunities, building an increasingly generous pension structure, and bolstering social welfare programs. In order to do this and to keep the state's economy growing, the government periodically devalued the drachma, which allowed it to secure cheap loans with low interest rates. Such tactics artificially bolstered the economy and gave the country the reputation of having a sustainable and thriving economy.<sup>45</sup> However, the gap between government spending and revenue consistently widened, especially during the first years of PASOK's rule.<sup>46</sup> Furthermore, the party was notoriously anti-EC, and this stance "was to a large extent responsible for a good part of the problems that the country faced inside the EEC."<sup>47</sup> In spite of its anti-EC sentiments, PASOK delivered a memorandum to Brussels in March 1982, cheekily requesting a significant increase in organisation funding.<sup>48</sup> In other words, it asked for the first of many special handouts.

Between 1979 and 1984, the Greek economy experienced a significant downturn due to the decline in industrial investment, the gradual increase in the cost of labour, and a decrease in productivity. Due in part to the very generous yet poorly planned labour policy, the average hourly pay rate doubled, resulting in an 88% increase in manufacturing labour costs. The institutional changes required

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<sup>44</sup> G. Hondroyiannis, E. Papapetrou, (1996), p. 365.

<sup>45</sup> D.A. Floudas (2010).

<sup>46</sup> Hondroyiannis, Papapetrou, p. 365 (Figure 1).

<sup>47</sup> Tsinisizelis, cit., p. 149.

<sup>48</sup> "Greek Memorandum: Position of the Greek Government on Greece's Relations with the European Communities," Bulletin of the European Communities, No. 3/1982, 92-93.

for EC membership, such as a decrease in working hours, increased safety measures, and the extension of paid holidays, just added to these problems.<sup>49</sup> The failure of a number of heavy industries facilitated their nationalisation to prevent public unrest, increasing the costs shouldered by Athens and public debt,<sup>50</sup> but this time the government couldn't force creditors to loan at below market interest rates as EEC membership disallowed this particular practice, resulting in much higher rates and increasing debt to service previous loans.<sup>51</sup> Despite these hardships, as well as the economic crises of 1987 and 1993, Greece's GDP continued to grow until 2009, masking the fragility of its economy.<sup>52</sup>

One reason for this growth was the country's position as a net beneficiary of the Common Agricultural Policy (CAP), even though its position as primarily an agricultural economy was rapidly changing into one dominated by the service industry. In the 1950s 50% of its labour force practiced agriculture, accounting for 25% of the country's GNP, but these numbers dropped by the end of the 1980s to 17.5%.<sup>53</sup> When the CAP was initially discussed during accession negotiations, Greek negotiators argued "that the rapid alignment of domestic agricultural prices to the (much higher) European prices would effectively secure farmers' incomes and this would lead to increased output." In other words, the negotiators argued that rising prices would be a good thing as they would mean more money for agricultural producers, thus farmers would have more incentive to increase productivity. Additionally, it was thought that Greece's crops would be complementary to other European imports rather

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<sup>49</sup> Patronis, Liargovas, *cit.*, p. 122.

<sup>50</sup> OECD Economic Survey: Greece, 1998. With this nationalization during the 1980s, the government took on the debts of the firms as well, adding an estimated trillion drachmas to the public debt (99-100). Vetta argues that this nationalization "exposed the various types of clientelism and interlocking interests between political elites, banks, and capital" (Vetta, pp. 13-14).

<sup>51</sup> Vetta, *cit.*, p. 13.

<sup>52</sup> World Bank and Eurostat, "GDP Growth of Greece 1961-2010", accessed 25 August 2024.

<sup>53</sup> P.D. Pezaros (2004), p. 19.

than competitive; this notion, however, was highly underestimated. Funds provided to Greece via CAP were also intended to replace national funds, alleviating domestic budgetary pressures in that sector.<sup>54</sup>

Throughout the 1980s, the Greek Ministry of Agriculture pushed for increased benefits for Greece, including the highest possible prices and subsidies. These measures were intended to complement existing national subsidies, reducing production costs while simultaneously increasing output. Officials also advocated for strengthening the price support system, and when negotiating annual agricultural prices and related policies, their primary goal was to secure soaring prices that would cover domestic production costs.<sup>55</sup> Briefly, Greek officials sought to have the European Community finance their domestic production. This strategy remained in place for most of the decade, and whenever Athens utilized CAP funds, the resulting change simply replaced state subsidies “with the more generous European funds.”<sup>56</sup>

CAP's impact was positive in the short term, but eventually it brought about negative results. The protection of farmers' incomes through high guaranteed prices contributed to an inflation rate much higher than the European average in the 1980s. Agriculture quickly became the most popular second occupation for much of the Greek population at the end of the 1980s, and this increased in the 1990s, causing the number of CAP beneficiaries in the country (as well as the amount of funds the EC provided) to increase as well.<sup>57</sup> Additionally, farmers were a significant part of the Greek electorate and were able to manipulate it by consistently supporting PASOK; with this political power, the farmers demanded the convergence of rural and urban incomes through measures such as price increases

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<sup>54</sup> Pezaros, *cit.*, p. 21. Vetta argues that the CAP and other EU funds allowed for clientelism to flourish as the government redistributed to individuals and firms linked to the party, keeping consumption rates artificially high (Vetta, pp. 17-18).

<sup>55</sup> Pezaros, *cit.*, p. 22.

<sup>56</sup> Pezaros, *cit.*, p. 23.

<sup>57</sup> Pezaros, *cit.*, pp. 23-24.

and direct income support.<sup>58</sup> Despite the fact that Greece was no longer an agrarian-based economy, in 2006 it received 3 billion euros from CAP, 6% of the total available funds for that year, which made it one of the largest per capita beneficiaries of this institutional welfare program.<sup>59</sup>

In all, the rule of PASOK facilitated some troubling economic practices that plagued the state throughout the 1980s.

“To the unbalanced trade deficits, the stagnation of investments, and the growing inflation, [one has] to add the increase of public expenses (...). The expansion of welfare, the cover of deficits of insurance organisations and crisis-ridden public enterprises, the increase of various subsidies, the growing number of public servants, the shrinking of taxation inflows, the nationalisation of large companies in the 1980s to the public sector, (...) all dramatically exacerbated the primary expenses of the state. (...) The cumulating deficits had as a result the escalation of public debt from 27.7% of GDP in 1980 [to] 89% in 1990. Until that time, credit was not coming from the market but from low-interest loans from commercial banks. (...) The increase of expenses imposed external borrowing as a temporary solution. Rising debt meant rising costs to serve it. Interest payments grew from 1.4% of GDP in 1980 to 9.4% in 1990, becoming one of the main burdens of the public budget.”<sup>60</sup>

## The 1990s and joining the Eurozone

In April 1990 Greek voters ousted PASOK in favour of the more conservative New Democracy Party. New Democracy immediately re-

<sup>58</sup> Pezaros, cit., p. 28.

<sup>59</sup> One must also keep in mind that the CAP, while only benefiting a small number of Europeans, is not a cheap program. In 2006 the CAP, which the Commission claims is the only policy in the EU fully funded by the EU itself, accounted fully for 45.4% of the EU's budget. It must also be noted that agriculture only accounted for 3.1% of Greece's GDP. “Q&A: Common Agricultural Policy”, BBC Online, 20 November 2008, <http://news.bbc.co.uk/2/hi/4407792.stm>.

<sup>60</sup> Vetta, cit., p. 18.

duced state intervention in the economy, but privatisation proved to be a challenging task, with only twelve firms sold by the end of 1993. The explanations regarding the failure of privatisation included legal obstacles, deficiencies in administration, a lack of coordination between bodies responsible for privatisation, overestimation of market values, governmental hesitation in continued free market reforms, and strong opposition from leftist and labour unions. Another explanation for the government's privatisation failure was uncertainty. Neither individual Greeks, nor the government knew how the people would fare under the reforms. Memories of the high inflation and interest rates of the 1980s, the devaluations of the currency in 1983 and 1985, the opaque and onerous taxation laws, and lack of credibility in policymaking aggravated the situation.<sup>61</sup> The primary reason for economic policy failures, it seems, was the government's inability to implement necessary reforms.<sup>62</sup>

However, Greece's intention to enter into the European Monetary Union (EMU) in the mid-1990s changed the situation; privatisation became the "most important element of the [government's] economic policies," and Athens became much more proactive in implementing it. Initiatives in several areas were taken due in part to the Greek adherence to EMU, including the reduction of administrative barriers, the simplifying of the business environment for enterprises and SMEs (Medium-Sized Enterprises), opening up network utilities, and reforming the tax and pension systems. The effect on the Greek state was twofold. It put pressure on Athens to continue institutional reform, reversing the lagging commitment and credibility of policymakers, thus reducing economic uncertainty, and contributing to the "ideological convergence among different political parties."<sup>63</sup> A positive effect of these reforms was a spike in state revenue, which drew in more tax money at a time when interest rates were much lower.

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<sup>61</sup> Patronis, Liargovas, cit., pp. 126-128.

<sup>62</sup> Patronis, Liargovas, cit., p. 130.

<sup>63</sup> Patronis, Liargovas, cit., pp. 130-132.

Consequently, at the same time that Greece had to implement these reforms there was an upturn in the world economy, which made loans cheaper and easier to secure until the very late 1990s. Its borrowing costs dropped dramatically, which allowed the state to make its economy appear better to the European Monetary System (EMS).<sup>64</sup> The Greek government took advantage of its greater access to cheap credit in order to pay for government spending; additionally, the government borrowed money to pay for imports from abroad that had not been offset by exports, masking its true economic position from the Union. Furthermore, the funds the government borrowed “were not channelled into productive investments that would generate future growth;” instead, they were used to fund “consumption that did not yield streams of revenue with which to repay the debt.”<sup>65</sup> This resulted in Athens taking out even more loans, with which it continued to “buy support” through corruption, taking full “advantage of the fall in its interest payments [servicing debt] to increase other spending, rather than reducing its debt.”<sup>66</sup>

Another aspect of participation in the Economic and Monetary Union (EMU) was one that ultimately came with a cost to independent financial policy. The inflexibility associated with membership in the Eurozone limited Greek ability to offset its prolific spending. Once a state became a member, currency devaluation, and other inflationary measures to manage debt could no longer be used. This is not necessarily a critical problem during periods of easy and inexpensive borrowing. However, once borrowing costs increased, the more creative financial strategies – especially those Greece had used to qualify for Eurozone entry – were no longer an option. This significantly contributed to the series of economic crises that nearly destroyed the state’s economy in the late 2000s.

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<sup>64</sup> Nelson, *cit.*, p. 3. Vetta, too, argues the same point (21).

<sup>65</sup> Nelson, *cit.*, p. 3.

<sup>66</sup> Hirst, *cit.*

## Monetary Union, Questionable Data

By the end of the 1990s the market on easy credit was waning, giving the government an incentive to join in the common currency.<sup>67</sup> Creditors understood that smaller countries like Greece and Ireland, due in part to their fluctuating currencies, were increasingly risky investments. Greek officials hoped that after entry, foreign loans would become cheaper and easier since creditors would see membership as a hedge against currency fluctuations, which ultimately occurred. Harris Mylonas argues that the Greek government, after adopting the euro, “went on a big, debt-funded spending spree, including paying for high-profile projects such as the 2004 Athens Olympics.”<sup>68</sup> This spurred heavy borrowing to “support domestic consumption or housing booms rather than productivity-enhancing investments.”<sup>69</sup>

In an effort to ensure entry into the EMU regime, the Greek government’s Monetary Committee created a set of convergence criteria and excessive debt procedures in the early 1990s.<sup>70</sup> Eventually, five criteria emerged from its discussion based on the EU’s rules for joining the Eurozone: the government could never run a budget deficit larger than 3% of GDP; government debt could be no larger than 60% of GDP; the inflation rate must remain less than 1.5% above the average inflation rate of the three best-performing countries; long term interest rates could not exceed 2% of the three best-performing countries; and the state must have two years of membership in EMS without devaluing its currency.<sup>71</sup> As a result of the EMS crisis, however, EMU was not fully implemented until the end of the 1990s.<sup>72</sup>

Through a combination of the Commission’s will and manipu-

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<sup>67</sup> For a good overview of Greece’s macroeconomic policies that contributed to the debt crisis and an analysis of some of the causes of the crisis, see M-G. Arghyrou. J.D. Tsoukalas (2011), pp. 173-191.

<sup>68</sup> H. Mylonas (2011).

<sup>69</sup> M. Higgins, T. Klitgaard (2011), p. 1.

<sup>70</sup> D. Heisenberg (2006), p. 241.

<sup>71</sup> Heisenberg, cit., p. 241.

<sup>72</sup> Heisenberg, cit., pp. 245-246.

lated data, Greece joined the Eurozone on 1 January 2001.<sup>73</sup> The evidence of Greece manipulating and falsely offering data can be seen in a report from Eurostat in November 2004. According to the report, the actual government deficit for 2003, instead of the reported 1.7% of GDP, was 4.6%. Additionally, the reported government deficits for 2000, 2001, and 2002 were also falsified; deficits of 2.0%, 1.4%, and 1.4% were actually 4.1%, 3.7%, and 3.7%, respectively. Furthermore, the government knowingly and falsely supplied data for the years prior to the adaptation of convergence criteria in 1997, 1998, and 1999. It claimed deficits of 4.0%, 2.5%, and 1.8% respectively, when in actuality they amounted to 6.6%, 4.3%, and 3.4%. Thus, in terms of percent of government deficit in GDP alone, Greece did not qualify to remain in the EMU.

Eurostat also discovered false data for the percentage of government debt to GDP. For every year from 1997 to 2003, the government reported debts to GDP rates of 108.2%, 105.8%, 105.2%, 106.1%, 106.6%, 104.6%, and 102.6%. In reality they ran up to 114.0%, 112.4%, 112.3%, 114.0%, 114.7%, 112.5%, and 109.9% over those seven years;<sup>74</sup> even the falsified numbers should have been enough to bar the country from EMU. The misreporting and obfuscation were so egregious that the EU had to school the Greeks on a number of occasions to bring them into compliance with the Union's standards and ethics on statistical reporting, methodology, and calculation. Because of this the EU amended its "legal framework for fiscal data in order to strengthen that framework and to improve the monitoring by the Commission of data provided by Member States in the context of the EDP notifications exercises." However, Greek statistics for the following years until 2009, continued to be revised by Eurostat and judged unreliable. Furthermore, the organisation intimated in their report that political interference with the reporting was a distinct possibility.<sup>75</sup>

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<sup>73</sup> Heisenberg, cit., p. 246.

<sup>74</sup> Eurostat (2004), pp. 2-4.

<sup>75</sup> Eurostat (2010), pp. 28-29.

This falsified data clearly illustrates official government corruption, which was supported by the 2011 Corruption Perception Index, in which Greece scored a dismal 3.4 on a scale of 0-10, with smaller numbers representing more corruption. It scored so low that only one EU country, Bulgaria, fell below Greece, while two non-EU countries – Macedonia and Croatia – fared better.<sup>76</sup>

Although Greece faced economic challenges at the turn of the millennium, a sense of optimism prevailed. Between 2000 and 2007, the Greek economy experienced rapid expansion, with an annual growth rate of just over 4%, discouraging the EU from making stricter demands for meaningful reforms. While Greece could no longer manipulate its currency, entry accession to EMU and EU ushered in a temporary but rapid increase in real GDP as EU funds flowed into major infrastructural improvement.<sup>77</sup> Combined with this, a surge in tourism, bolstered by Athens hosting the 2004 Olympic Games, as well as easy borrowing terms artificially sustained the economic boom.<sup>78</sup> Evangelia Kasimati's and Peter Dawson's economic analysis of the period showed an expected reduction in deficits across the board due to the games, which also temporarily reduced unemployment. They estimated the Olympics boosted the economy of approximately 1.3% between 1997 and 2005.<sup>79</sup>

However, this short-term boost in no way had long-lasting positive outcomes. As of 2009 Greece continued to pay for the games, which "helped nudge Greece into a financial abyss that [caused] trouble for Europe and the euro." A part of its high debt was "directly traced to overspending on the 2004 Athens Olympics."<sup>80</sup> Additionally, it should be noted that 83% of the funding for the 2004 Olympic Games came from the public purse. The construction of sporting facilities for the games was estimated to cost approximately

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<sup>76</sup> Transparency International (2011).

<sup>77</sup> Vetta, cit., p. 21.

<sup>78</sup> "Greece: Foreign Capital Inflows Up", Embassy of Greece in Poland, 17 September 2009, Greeceinfo.wordpress.com.

<sup>79</sup> E. Kasimati, P. Dawson (2009), p. 145.

<sup>80</sup> E. Weiner (2009).

3 billion euros; transportation projects required an estimated 4.2 billion; communication accounted for 1.2 billion; security ran 1.1 billion, and other infrastructure projects came in at 0.7 billion, for a total of 10.2 billion euros.<sup>81</sup> This meant the public contributed almost 8.5 billion euros to the games. Furthermore, according to the BBC, the Greek government determined that it would cost \$100 million per year to maintain the new Olympic facilities, though to make the construction more acceptable to taxpayers, officials declared that after the games the new facilities would host not only sporting events but also commercial ones as well as restaurants, cafes, and even theme parks.<sup>82</sup>

### **The Role of International Organisations and Interest Groups in the Eurozone Crisis**

While the roots of Greece's debt crisis lie primarily in its own fiscal mismanagement, over-bureaucratisation, and systemic corruption, the broader Eurozone crisis that followed cannot be fully understood without acknowledging the roles played by several international institutions and financial actors that either enabled Greece's trajectory or intensified its consequences. In particular, the International Monetary Fund (IMF), the European Central Bank (ECB), global credit rating agencies, and investment banks such as Goldman Sachs all bear partial responsibility for how the crisis started, unfolded, and/or why its effects were so devastating.

The IMF, long considered as a global financial fire brigade,<sup>83</sup> was initially reluctant to engage in the crisis. However, when Greece's fiscal numbers unravelled in 2009 and 2010, it joined the so-called "Troika" alongside the European Commission and the European Central Bank, authorising a 30 billion euro Stand-By Arrangement in May 2010,<sup>84</sup>

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<sup>81</sup> Kasimat, Dawson, cit., p. 140.

<sup>82</sup> R. Galpin (2005).

<sup>83</sup> S. Feingold (2024).

which was part of a broader 110-billion-euro bailout.<sup>85</sup> While the IMF's intervention was framed as necessary for Eurozone stability, the terms it imposed revealed a fundamental misjudgement. IMF economists endorsed severe austerity measures that underestimated the fiscal multiplier effect – namely, the extent to which spending cuts and tax increases would reduce overall GDP.<sup>86</sup> This miscalculation, later acknowledged by the IMF,<sup>87</sup> led to deeper than expected recessions, skyrocketing unemployment, and social dislocation across Greece.<sup>88</sup>

In its eagerness to contain contagion risk across the Eurozone, the IMF also violated its own internal lending rules by approving loans despite serious doubts about the sustainability of Greece's debt.<sup>89</sup> Debt restructuring was explicitly avoided during the first bailout to safeguard European banks, particularly in France and Germany,<sup>90</sup> which held significant interest in Greek sovereign bonds.<sup>91</sup> This decision was less about Greece and more about shielding the Eurozone's financial system,<sup>92</sup> a strategic choice that prolonged Greece's fiscal agony.

The ECB's role was likewise complicated and not simply for its role in the Eurozone crisis itself. One could argue that the ECB played a role in enabling unsustainable borrowing by Greek governments in the years leading up to the crisis. Maintaining low interest rates that facilitated cheap and easy loan procurement fostered a climate of "moral hazard." Financial markets assumed, not without reason, that euro area members would be bailed out in times of distress, so lending to the Greek government and buying its bonds seemed to be a solid investment.<sup>93</sup>

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<sup>84</sup> Independent Evaluation Office (2016).

<sup>85</sup> H. James (2024), pp. 97-136.

<sup>86</sup> N. Leiner-Killinger et al. (2020); C. Wyplosz, S. Sgherri (2016).

<sup>87</sup> Independent Evaluation Office, 2016.

<sup>88</sup> James, *cit.*, pp. 97-136.

<sup>89</sup> Independent Evaluation Office, 1.

<sup>90</sup> Independent Evaluation Office.

<sup>91</sup> B. Marsh (2011).

<sup>92</sup> A. Katsanidou, Z. Lefkofridi (2020), pp. 160-172.

<sup>93</sup> J. Frieden, S. Walter (2017), pp. 371-390, 373-375.

When the crisis hit, the ECB, initially constrained by its strict inflation-targeting mandate, was slow to act.<sup>94</sup> It hesitated to intervene in sovereign bond markets, which exacerbated speculation and widened bond spreads. Only in 2012, after ECB President Mario Draghi pledged to do “whatever it takes” to preserve the euro, did the ECB deploy more assertive tools such as the Outright Monetary Transactions (OMT) program, which stabilised bond markets,<sup>95</sup> and ultimately led the institution into a more active role in member states’ economic and financial policies. Yet the initial vacillation on the Greek situation imposed immense costs on the Greek economy. Furthermore, ECB’s participation in the Troika subjected it to criticism for overstepping its technocratic role and blurring the line between monetary and fiscal policy.<sup>96</sup>

Credit rating agencies too, particularly Standard & Poor’s, fanned the flames at crucial moments. Their abrupt downgrades of Greek sovereign debt to junk status in 2010, the first Eurozone member to be downgraded to this level,<sup>97</sup> triggered automatic selloffs by institutional investors and raised borrowing costs, accelerating Greece’s loss of market access.<sup>98</sup> While these agencies were technically responding to fiscal data, their delayed reactions and abrupt reversals cast doubt on their objectivity.

Adding to this were the opaque actions of financial institutions like Goldman Sachs, which advised the Greek government in 2001 on complex cross-currency swap agreements. These financial manoeuvres allowed Greece to disguise a portion of its debt and meet

<sup>94</sup> M. Nedeljković, A. Mody (2019); G. Chesini, F. Faurie (2024).

<sup>95</sup> Giusy, Fauri; “Greece’s Debt Crisis: 1974-2018”, Council on Foreign Relations [no date], <https://www.cfr.org/timeline/greeces-debt-crisis-timeline>; C. Wyplosz (2014), pp. 1-13.

<sup>96</sup> See M. Chang (2018), pp. 41-53; P. Legrain (2015); “European Parliament resolution of 13 March 2014 on the enquiry on the role and operations of the Troika (ECB, Commission and IMF) with regard to the euro area programme countries”. Official Journal of the European Union, C 378, (2013/2277(INI)) (9 November 2017), pp. 182-199; E. Krecké (2019).

<sup>97</sup> C. Sutton, (2010).

<sup>98</sup> A. Moses, P. Dobson (2010).

the criteria for Eurozone entry.<sup>99</sup> By exploiting loopholes in EU reporting standards, the swaps artificially reduced Greece's reported debt stock without actually improving fiscal fundamentals throughout the 2000s. Goldman Sachs, in turn, profited from these transactions and later from derivative instruments such as credit default swaps that allowed investors to bet on Greece's default.<sup>100</sup> This dual role of facilitating concealment and then profiting from collapse has come under sustained criticism.<sup>101</sup>

The EU's institutions themselves bear responsibility for both their design flaws and reactive crisis management as well. The euro's architecture lacked mechanisms for fiscal transfers, crisis intervention, or banking union. Once the crisis began, the European Commission often prioritized fiscal consolidation over economic growth. Bailouts were conditioned on sweeping austerity and structural reforms without due regard for their social or political sustainability. The perception, widespread in Greece, was that these conditions served creditor states more than the Greek people, exacerbating the social and economic repercussions in the state with the Troika's insistence on harsh austerity measures that arguably slowed Greece's potential recovery.

Political dynamics in creditor countries, particularly Germany and the Netherlands, further constrained EU-level responses. To secure parliamentary support at home, European leaders and the media justified the bailouts in moralistic terms – casting Greeks as profligate and lazy<sup>102</sup> – while portraying austerity as a form of fiscal penance.<sup>103</sup> This rhetoric not only deepened public resentment in Greece but also contributed to rising Euroscepticism across Southern, Eastern, and Southeastern Europe.

The IMF's policy miscalculations, the ECB's initial passivity and later overreach, the recklessness of global financial institutions, and

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<sup>99</sup> James, *cit.*, p. 98.

<sup>100</sup> N. Dunbar, E. Martinuzzi (2012).

<sup>101</sup> On the role of Goldman Sachs on the crisis, see B. Balzli (2010); R. Reich (2015).

<sup>102</sup> For example, see A. Endres (2013); G. Hewitt (2015).

<sup>103</sup> J. Redwood (2015).

the actions of credit rating agencies collectively turned a national crisis into a continent-wide calamity. Understanding these co-responsibilities does not absolve Greece of its significant role in the crisis. Rather, it reveals how international actors and flawed institutions, many designed to enforce discipline or ensure stability, sometimes operate with internal contradictions that make crises more difficult to resolve. It also illustrates that without transparent governance, fiscal solidarity, and coherent crisis management frameworks, the Eurozone, and perhaps the European project as a whole, remains vulnerable to the next inevitable shock.

However, one must understand that the Greek government bears the heaviest share of blame for concealing deficits, misreporting statistics, and failing to reform a bloated state apparatus. Its wilful choice to exploit loopholes to prevent the necessary austerity measures and entitlement cuts led to a cascade of systemic failures that affected not only Greece, but the other states of the Eurozone, which were using similar financial strategies to conceal debt or make a variety of specious loans on favourable but unsustainable terms.

### **The Debt Crisis of 2009-2015 and the Continued Fudging of Numbers**

While the government gambled that the Olympics would have a positive impact on the Greek economy, it continued to spend well beyond its means.<sup>104</sup> Several “deeply entrenched” aspects of the Greek economy also contributed to what would become its debt crisis, including “pervasive state control of the economy, a large and inefficient public administration, endemic tax evasion, and widespread political clientelism.” The global financial crisis of 2008-

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<sup>104</sup> “What went wrong in Greece?”, in *BBC Online*, 10 November 2011. [http://news.bbc.co.uk/1/hi/shared/bsp/hi/dhtml\\_slides/10/greece/inc/slideshow.inc](http://news.bbc.co.uk/1/hi/shared/bsp/hi/dhtml_slides/10/greece/inc/slideshow.inc). A similar spending spree occurred in the late 1990s (Hirst), illustrating a pattern of fiscal irresponsibility and continued corruption that should have been a major red flag for the watchdog agencies in the European Union.

2009 coupled with an influx of capital at low interest rates exacerbated the situation. To put this in perspective one must consider that in the first decade of the 2000s, 38% of government expenditures went to increases in public sector wages and benefits alone, an unsustainable level in a market of fluctuating interest rates. Furthermore, clientelism combined with pervasive tax evasion and a complex tax code granted exemptions to many professions and income brackets.<sup>105</sup>

What made the crisis so severe was that Greece no longer had the luxury of its own currency or monetary policy.<sup>106</sup> Thus, the Eurozone's monetary inflexibility limited Greece's ability to offset its prolific spending through inflation and currency devaluation.<sup>107</sup> Because Greece borrowed so much from international capital markets to offset its budget and trade deficits, it was vulnerable to shifts in investor confidence. In part, the 2008-2010 "crisis was sparked by a loss of confidence by private investors in periphery countries' government debt, causing a spike in domestic interest rates," meaning the end of cheaper loans.<sup>108</sup> When the global financial crisis of 2008-2009 hit, Greece's public debt rose from 106% of GDP in 2006 to 126% three years later.<sup>109</sup>

To hide this from EU regulatory agencies, Athens consistently underreported levels of government debt and deficits.<sup>110</sup> For exam-

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<sup>105</sup> Nelson, *cit.*, p. 2. In 2010, Transparency International's Corruption Perceptions Index (CPI) ranked Greece 78<sup>th</sup> out of 178 countries, assigning it a score of 3.5 on a scale from 0 (highly corrupt) to 10 (very clean). This position placed Greece as the lowest-ranked member of the European Union in terms of perceived public sector corruption ("Corruption Perceptions Index, 2010", <https://www.transparency.org/en/cpi/2010>).

<sup>106</sup> For a Commission assessment of the structural problems facing Greece into 2010, see "Update of the Hellenic Stability and Growth Programme", Greek Ministry of Finance. European Commission (15 January 2010).

<sup>107</sup> Nelson, *cit.*, p. ii.

<sup>108</sup> Higgins, Klitgaard, *cit.*, p. 9. Due to Greece's "ballooning budget deficit" international lenders significantly raised interest rates on the state, making it more expensive to finance its debt in 2010 (G. Georgiopoulos, 2010). Galina Hale called this phenomenon "debt intolerance" ("Balance of Payments in the European Periphery", Federal Reserve Bank of San Francisco, 14 January 2013).

<sup>109</sup> Nelson, *cit.*, p. 4.

ple, Greece reported that its deficit in 2008 was 5% of GDP when it was actually 7.7%, and its reported deficit of 3.7% in 2009 was actually 12.5%.<sup>111</sup> Wall Street even had a hand in masking the Greek debt. A deal with Goldman Sachs “helped obscure billions in debt from the budget overseers in Brussels.”<sup>112</sup> “Higher interest rates (...) helped to compensate investors for the higher risk involved in holding Greek government bonds,” but they too drove up Greece’s borrowing costs, intensified its debt levels, and steered Greece closer to default.<sup>113</sup> When Greece’s government was forced to admit its obfuscation, it “bec[a]me the symbol of government indebtedness.”<sup>114</sup>

To avert a government default, in May 2010, Eurozone leaders and the International Monetary Fund (IMF) announced that they would fund a three-year bailout package worth 110 billion euros at market-based interest rates with Eurozone countries contributing 80 billion.<sup>115</sup> This bailout set a precedent in the Eurozone, and in March 2011 EU officials agreed to create a permanent lending facility for such cases. In order to receive bailout funds, however, Greece had to implement a series of austerity measures to reduce the budget deficit by 11% through 2013 and to bring it below 3% GDP by 2014. To achieve this, the program’s objectives were to cut public spending, enhance revenue growth through tax increases, and crack down on tax evasion. Most of the spending cuts regarded the civil service in the forms of a reduction or freeze in civil service compensation and a hiring freeze in the sector. Regarding revenue, the government raised the average value-added tax rate and increased taxes on cer-

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<sup>110</sup> This occurred even after the government was caught doing the same thing in 2004.

<sup>111</sup> T. Barber (2010).

<sup>112</sup> L. Story et al. (2010).

<sup>113</sup> Nelson, cit., p. 5. Interestingly, Greece defaulted in its debt payments in 1932 and remained in default until 1964. (Nelson, p. 1). Curiously, since its independence, the country has spent more than fifty years in a state of default or rescheduling of debt (Reinhart, Rogoff, p. 99). It would also technically default on payments in both March 2012 and again in June 2015 due to massive losses by its creditors.

<sup>114</sup> “Acropolis now”, *The Economist*, 395(8680), 1 May 2010, p. 11.

<sup>115</sup> “Europe and IMF Agree €110 Billion Financing Plan with Greece”, IMF Survey online, 2 May 2010.

tain goods. Tax collection was to be strengthened, and tax evaders, once discovered, would be required to pay higher contributions.<sup>116</sup>

Healthcare and pension reforms too were implemented in an effort to consolidate public finances.<sup>117</sup> In July 2010, a pension reform was passed that increased the average age of retirement and changed the way pension benefits would be calculated; additionally, a push by Prime Minister Papandreou for strengthened accountability in the inefficient healthcare system also occurred. Reforms to healthcare included a reduction in total expenditures and a consolidation of hospitals.<sup>118</sup> Unsurprisingly the Greek GDP contracted by 4.5% in 2010 with experts predicting another contraction between 2.9% and 3.9% in 2011. Its public debt surged between 2010 and 2011, rising from 143% of GDP to 166%, with experts at the time predicting it would climb further to 172% in 2012.<sup>119</sup> Furthermore, the Greek economy from 2008-2015 contracted by 25% and real unemployment reached 25% over the same period.<sup>120</sup> The combination of severe austerity measures and economic decline fuelled public discontent, leading to mass protests against budget cuts and the rise of the neo-fascist Golden Dawn party in the political arena.

In response to the worsening political and economic crises, European officials determined that, in addition to imposing further austerity measures and providing additional financial assistance, “the holders of Greek bonds would also share in the crisis response by accepting some losses on their investments.” The newly implemented austerity policies included further spending cuts and reductions in public sector overstaffing,<sup>121</sup> with the goal of bringing the deficit down to 0.9% of GDP by 2015. Additionally, an “ambitious

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<sup>116</sup> Nelson, *cit.*, p. 6. For an assessment of Greek compliance with the first bailout package, see European Commission (2011).

<sup>117</sup> At the time the Greek pension system was considered one of the most generous in Europe (Nelson, p. 7).

<sup>118</sup> Nelson, *cit.*, p. 7.

<sup>119</sup> Nelson, *cit.*, p. 10.

<sup>120</sup> D. Lachman (2015).

privatisation and public real estate development program designed to raise 50 billion euros by 2015” was proposed.<sup>122</sup>

In 2011 the failure of the Greek government to meet the conditions of the 2010 bailout led to a second, which included the country’s creditors agreeing to write off up to 50% of their Greek debt.<sup>123</sup> Other creditor concessions were also asked to alleviate the crisis.<sup>124</sup> Additional financial assistance was agreed upon in July 2011 in the form of a second bailout package totalling 109 billion euros, with these loans being offered on “more favourable” terms than the previous package. That same month, European leaders announced that Greek bondholders should contribute 50 billion euros to the crisis response by voluntarily participating in bond exchanges, rollovers, and debt buybacks to reduce Greece’s short-term debt payments. Those who chose to participate faced an expected loss of 21% in the value of their bond holdings.<sup>125</sup>

To add insult to injury another package was negotiated for 2015, further contributing to deeper and more painful austerity measures that included higher taxes to fund continued government entitlements, massive spending cuts, and IMF and European Union guided reforms, all of which sparked protests over the course of the next several years. Even with these measures the government still failed to make several loan repayments to IMF,<sup>126</sup> and when the government requested the EU finance ministers to extend the bailouts, the

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<sup>121</sup> Experts have argued that a smaller public sector focused on quality and efficiency, as opposed to nepotism and rent-seeking, promote long-term economic growth and health. However, in Greece, where long-term public bloat and rent-seeking political strategies are the rule, reductions in staffing and quality control are resisted by the political class. See K. Angelopoulos, A. Philippopoulos (2007), pp. 157-175.

<sup>122</sup> Nelson, *cit.*, p. 7.

<sup>123</sup> P. Taylor, D. Flynn (2011).

<sup>124</sup> J. Zettelmeyer, C. Trebesch, M. Gulati (2013), pp. 513-563.

<sup>125</sup> Nelson, *cit.*, p. 9. Investors’ woes didn’t stop there. Greece’s stock market was downgraded from a developed mixed economy to an emerging market in 2013, and its stock market lost 83% of its value from 2007-2013 (J. Dunkley, 2013). This followed a devastating downgrade of Greece’s government bonds to junk in April 2010, which resulted in a loss of confidence by investors and creditors alike (R. Wachman, N. Fletcher, 2010).

<sup>126</sup> E. Becatoros, R. Casert (2015).

call was rejected.<sup>127</sup>

The financial burden of Greece's irresponsible public borrowing and debt servicing extended beyond its borders, creating political challenges for other Eurozone countries. Many governments struggled to justify ongoing financial support for Greece, as opponents "expressed exasperation with the idea of rescuing a country that (...) has not exercised budget discipline, had failed to modernise its economy, and had allegedly falsified financial statistics."<sup>128</sup>

The Greek economic crisis brought to light important political and economic issues, as the responses to it set a precedent for managing similar crises in the future. It also raised serious concerns about the stability of the European financial sector by creating new financial liabilities for other European countries. In doing so, it exposed the key limitations of Eurozone membership – particularly the inability of member states to devalue their own currencies as a tool for economic adjustment. It also sparked a broad re-examination of EU governance, raising questions about deeper EU integration.<sup>129</sup> It is important to note that previous actions that once helped Greece to recover in the pre-EU era, such as massive devaluation of its currency that spurred its exports, were no longer available to Greece as a member of the Eurozone. As long as the euro was its currency, "it [did] not have the exchange rate in its policy toolkit for responding to [such a] crisis."<sup>130</sup> Some analysts have suggested that Greece leave the Eurozone and issue a new state currency, which could be devalued against the euro to boost exports and stimulate economic growth.<sup>131</sup> However, critics argue this would trigger a severe banking and financial crisis, while exacerbating the country's overall debt.<sup>132</sup> Regardless of the approach, Greece and the EU are clearly

<sup>127</sup> "Greece debt crisis: Eurozone rejects bailout appeal", BBC News, 30 June 2015.

<sup>128</sup> Nelson, cit., p. 9.

<sup>129</sup> Nelson, cit., pp. 12-13.

<sup>130</sup> Nelson, cit., p. 13.

<sup>131</sup> C. Lapavistas (2018) clearly posits this as one solution to the Greek problem; P. Krugman (2015).

<sup>132</sup> Nelson, cit., p. 13.

out of options, as neither can sustain the ongoing cycle of crisis and half-measure solutions.

## Conclusion

One can legitimately argue that while trade was growing and world markets expanded, Greece could accommodate elevated levels of social spending and expanding the welfare state. As the state increasingly became dependent on easy credit and low interest rates, particularly after its entry into the Eurozone, a macroeconomic downturn resulted in the state's inability to keep borrowing to both finance its previous debts and retain high (but decreasing) levels of entitlement program spending. Without the flexibility of its own currency and the possibility of inflating it to meet immediate short-term needs, in 2008 the Greeks entered a period of economic crisis that resulted in a series of bailouts. These bailouts came with austerity programs that cut the state's spending but also retarded its economy so that growth was nearly impossible. Thus, Greece was caught in a cycle where in order to receive foreign loans or have part of its debt written off by creditors, it could not spend the money some believed necessary to recover the economy.<sup>133</sup>

This pattern of economic stagnation and reliance on external assistance was not unique to the early 21<sup>st</sup> century. In fact, a closer examination of Greece's economic history since the post-WWII era reveals some recurring trends that contributed to its financial instability. One of the most common that occurred almost every decade was the devaluation of its currency against primary trading partners, an action that boosted exports, bringing domestic economic growth. Now that Greece was part of the Eurozone, it did not have this option and as such had to rely on help from others to even attempt recovery.<sup>134</sup> The result was that it paid off debt by borrowing much

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<sup>133</sup> A. Papadopoulou, G. Gouzoulis (2020), pp. 199-215.

<sup>134</sup> Experts have argued that the inability to manipulate its currency limits its ability to

like an irresponsible consumer paying down one credit card with another. One could conclude that while European bailouts aided in the short term, the results simply postponed the inevitable as debt and debt servicing increased without significant austerity reforms to pay for these irresponsible policies.

Thus, Greece's membership in the EU and Eurozone is a cautionary tale of financial mismanagement, political opportunism, weak EU oversight, and the lack of will by Brussels and the Council of Ministers to solve this cycle of crisis forcefully and permanently. While the EU aims at creating a unified and stable economic bloc, Greece's experience demonstrates how individual states exploit the system for short-term gains at the expense of broader European stability. In essence the Greek crisis forced the EU to reconsider its approach to membership and financial governance, leading to stricter regulations for newer members. However, it also raised fundamental questions about the sustainability of European integration when individual member and EU interests remain in conflict.

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weather severe economic storms. See M. O'Brien (2015); Higgins, Klitgaard, cit. p. 9; Lachman, cit. Lachman and Lapavitsas both suggest one solution would be for the Greeks to withdraw from the Eurozone and adopt a currency that can be manipulated to avoid economic disaster.

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