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The Evolution of Public Debt worldwide.
The case of Greece: Bankruptcy or Debt restructuring?

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‘’ Salus populi suprema lex esto’’

Cicero's De Legibus

or

‘’ This Time Is Different’’

By C. Reinhart and K. Rogoff

1. Introduction

The new financial crisis has brought new facts and terminology into the daily lives of millions of European and global citizens, which were previously completely unknown and were mainly the subject of the expertise of economists, politicians, bankers and academics. The globalisation of the world's economies, made possible due the development of technology, has led to an increase in the interaction between countries at all levels, particularly in the wider economic sphere. The increase in trade and in the financial interactions in real time had led to an increase in profits through trade and the accumulation of capital ready to pursuit higher profitability in new forms of investment.

The development and the globalization of the banking system expanded its role in this new era and led to the creation of new ways of increasing its profits through the creation of financial derivatives and their risk insurance which led to a huge increase in these kind of transactions, by replacing the role of money and removing it from the real economy. The alleged increase of Banks’ Capital by holding bonds, financial derivatives through securitization of loans and risk insurance, removed banks from the real market creating false expectations of profit and making the growth of the economy of the countries of the world precarious.

The constant bank transactions on the basis of false expectations that these financial derivatives provided led to an increase in government debts, as there was constant bank financing of government borrowing with unrealistic prospect of loan repayment, as well as of citizens through mortgages, resulting in the collapse of Lehman Brothers and AIG in the United States, which were the cause of the outbreak of the financial crisis. As a result the vast majority of banks worldwide and also in the United States collapsed and many of them had to be recapitalised by the States. As a consequence, the fate of the banks was followed by the states, which were unable to borrow capital from banking institutions or from the financial markets such as the speculative hedge funds and the private investors and as a result the States worldwide weren't able to service their already increased debt that had been created.

The crisis hit the Eurozone and the other EU countries at a time when traditional monetary tools (as currency devaluation) were no longer available for the Member States to deal with the crisis and also the European Central Bank did not play the role of lender of last resort as it should have done. In the context of avoiding a global crash, the states took on the role of bank bailout by nationalising the failed private banks and their bank losses, either as loan guarantors or by providing money liquidity and immediately recapitalising them. This ability of the states came partly from the creation of new money for the non EU countries but also from loans from the IMF, the ECB or new borrowing at higher interest rates from international markets for the EU countries, which resulted and still results in a new continuous increase in the public debts of the states.

The fiscal situation of these countries became worse as a precondition for receiving new loans was the adoption of deflationary measures in the already bankrupt economies as a measure to consolidate societies, which resulted in lower wages, increased unemployment, lack of investment, the mortgaging of public revenues and the sale of public property. The sustainability of public debt has become a term in the daily lives of citizens worldwide and has been a daily concern on the European continent since the beginning of the crisis in 2008. Defaults and terms such as PSI, debt restructuring and debt prolongation became part of the economic agenda of the media. The ability to repay existing debts, especially through their substitution with new ones with higher interest rates and longer repayment periods, is the way in which debt will continue to define the lives of citizens and states in general and will largely determine not only the sustainability of the debt itself but also the sustainability of the existence of states as states under the rule of law. Before proceeding to explore the timelessness of Debt globally, it is useful to move on to an understanding of some key terms that will concern us next.

2. Abstract

The concept of debt and financial crises is now affecting the daily lives of citizens worldwide. But are they new phenomena? If so, what are the causes of their emergence? If not, then why was there no foresight on the part of markets and institutional actors to avoid a new crisis? What is restructuring a debt and what is the difference between it and default? Why is the debt of a European country like Greece among the highest in the world? This paper aims to explore, study and describe the above two concepts and their interconnection by providing answers to the above questions.

The first chapter briefly deals with the explanation of basic terms of the debt economy which is essential for a proper understanding of the following chapters.

The second chapter refers to a longitudinal introduction to the creation of Debt and Debt Defaults globally and then focuses on the 20th century and the creation of the financial system by highlighting the critical role of the US and reaching the crisis of 2008.

The third chapter deals exclusively with the economic history of Greece since the foundation of the new Modern Greek state in order to understand the reasons and causes that the outbreak of the financial crisis found the country over-indebted and unable to cope with the new developments.

The fourth chapter deals with the beginning of the crisis and the fiscal adjustment programmes implemented by the Troika (IMF, European Commission and European Union) for the repayment and reduction of the debt and their consequent effects on the indebted state and the lives of citizens in particular.

Finally, the paper proceeds with conclusions and recommendations on how the country can get out of the economic impasse it has reached.

3. The definition of Public Debt and Government Deficit

Government debt consists of the total financial obligations and liabilities of the public sector of a government. The public sector of a state consists of the general government, the region, prefectures, municipalities and legal persons governed by public law. Public debt increases when the state budget for the year shows a deficit and therefore has to be covered either by increasing taxation or by borrowing internally or externally. Public debt is divided into internal and external debt. The internal debt is held by domestic lenders and usually is in the currency of the borrowing country, while foreign debt is held by foreign investors, banks or financial institutions of other countries and it is usually in foreign currency. In modern times with the development of the financial system and the freedom of movement of capital the above definitions are not always secure.

Another distinction of public debt is according to the reason and purpose of borrowing. When it is for investment in the productive sector then the debt is also called productive, while when it is only to cover government consumption expenditure then it is called consumer debt and is considered very risky as it offers nothing in repayment of the borrowed capital after its use. Public debt, both internal and external, is expressed in percentage terms compared to the gross domestic product of a country. According to the Bank of Greece, " External debt shows the outstanding actual liabilities of Greece vis-à-vis other countries, broken down by resident sector (Bank of Greece, other monetary financial institutions, general government, and other sectors), by type of financial instrument, and by initial maturity (long-term and short-term).External debt does not include liabilities arising from portfolio investment in shares or direct investment. "[1]

Another key distinction of debt is between gross debt, which includes all public sector debts and liabilities, and net debt, which consists of government liabilities but excluding the cash and deposits of government agencies and enterprises. Depending on the needs of the government, the corresponding timing of the loan is preferred. With regard to the time of repayment of loans, debt is divided into three categories:

[1] Bank of Greece. (2021) *Definition of the External Debt.*
Available at : https://www.bankofgreece.gr/en/statistics/external-sector/external-debt

- short-term (up to one year)
- medium-term (one to five years); and
- long-term (5 years and more)

The deficit in a state's government budget equals revenues minus expenditures and in the event of a negative difference leads to either an increase in taxation or borrowing to cover this deficit. The accumulation of borrowing in all years of government budget deficits creates government debt. The ways to address and finance the deficit if the corresponding cash resources are not available, are:

- Either to increase taxation, which is disastrous for economically weak economic countries and for the production process of their Economy
- The Central Bank of the Country to follow a new monetary policy and issue new money in the context of the state borrowing from it to fill the budget deficit. It is essential always to monitor and control the risk of an increase in inflation
- The State to proceed with new borrowing , internal or external, through the issue of bonds and repayment at fixed intervals with the corresponding interest rate, which leads to an increase in debt when these loans are not serviced by productive investment

The drawing up of deficit budgets is nothing more than another political tool for transferring responsibility to future generations, who do not yet have a say in present actions and will be called upon to repay the debts of previous generations. Correct and rational budgeting is a characteristic of a government that respects its citizens and future generations and is a necessary condition for the prosperity and development of the state. A balanced budget should be the goal and purpose of the rulers and citizens, not easy solutions such as borrowing that leads mathematically to bankruptcy in the long term. A country with continuous budget deficits will have serious issues with the balance of trade as well as a reduction in investment at home and at the same time a capital flight abroad as now the increase with higher interest rates of the debt, which will lead to new borrowing, may cause a default, as the country's position in international trade, financially and politically weakens[2].

[2] Mankiw, N. G. (2002) *Principles of Economics.* London : International Thomson Publishing; 2nd edition

The sources of sovereign borrowing are separated to some extent by the criterion of the origin of the financing. State governments borrow from the domestic banking system or financial institutions either through treasury bills or by issuing bonds that are bought by domestic lenders, and thus we refer to domestic debt. A state usually borrows from other states so it is a matter of interstate loans, from international organizations and international investment banks, also from hedge funds, from foreign private banks and private investors. The lending is either through the provision of capital or by issuing bonds and selling them to the above institutions. In addition , a country can borrow from the World Bank, the European Investment Bank and especially from the International Monetary Fund which has a large lending capacity and a great deal of experience in the management of States' debts .

3.1 Welcome to the Hotel IMF[3]

The International Monetary Fund has been much criticised for its approach and for the austerity programmes or Structural Adjustment Programs as they are called, which it imposes as the IMF loan conditionalities. The reforms demanded by the IMF are broadly based on an economic approach, a list of economic policies, the so-called 'Washington Consensus' [4] which consists of broadly:

- Restricting budget deficits and social spending,

- The promotion of a flexible labour market in order to attract investment,

- The liberalisation of trade from restrictions, privatisation and minimal State intervention,

- The self-regulation of markets free from state rules,

and more sweeping measures that are called the 'Shock Doctrine' and their implementation as the 'Shock Therapy '.The first full programme of 'structural adjustment' was drawn up in 1983 and has been enriched throughout the IMF's thirty years since then, having the above common features and having produced the opposite of the expected economic and debt results in Latin American, African,

[3] Panagiotou, P. (2011) *The 'Greek crisis' case.* Athens: Livanis Publications. pp 377 - 380. (In Greek).

[4] Klein, N. (2008) *The Shock Doctrine: the Rise of Disaster Capitalism*. New York: Picador. pp 218-225.

Russian, Asian, Eastern European and other countries. Transnational loans are regulated by the Paris Club, which is informally composed of the 19 economic representatives of the largest economies and supports the interests of the creditor states, while the London Club of creditors is a forum of commercial bank representatives who regulate participation and terms in restructuring cases. All these forms of external borrowing constitute External Debt.

3.2 Bankruptcy of a State

The term bankruptcy of a state essentially refers to the inability of a state to repay its outstanding debts which may involve the whole of a loan, a part of the capital or the debt interests. The result of bankruptcy comes from the inability of the state to borrow again or due to a lack of cash to meet its obligations. In the context of over - indebtedness, states go bankrupt and default if they are unable to pay the interest on outstanding debts. A loan agreement usually contains the terms, the conditions under which the borrowing state can go into default in the legal sense, as an event with legal effects. The legal default therefore arises under the terms of the loan agreement but the actual default concerns the interests of the lender, and the payment he will receive for what he has actually lent regardless of the face value (initial contractual value) of the loan. From a legal point of view, default occurs when the debtor country stops paying interest and debt service, announces its unilateral decision not to meet some or all of its obligations under the loan agreement, or wishes to restructure its debt. Debt restructuring is the most common modern form of debt default. It can be divided into: A creditor-initiated restructuring which usually occurs to avoid a unilateral default and involves the capitalisation of interest (funding) and its provision in the form of new bonds, this option is mainly advantageous for the creditors and when repeated it increases the debt sharply and default remains inevitable.

On the other hand, there is the official declaration of an overt default due to the initiative of the debtor state, which is usually followed by a unilateral cancellation of debt and the setting of the restructuring terms. This case includes for example the Bankruptcy and unilateral suspension of all payments to the major powers by the

Turks in 1875, the unilateral suspension of 20 to 50% of the Bolsheviks' debt in 1918 despite the initial refusal to pay all the Tsarist debts, Argentina and Ecuador. [5]

Bankruptcy and its most common effect of restructuring the debt, allows the state to either demand a reduction in debt obligations or to postpone them in time into the future. These ways improve the financial situation of the state as it can allocate cash balances for social benefits for productive investment and generally the growth of the economy which will lead to the gradual repayment of debt obligations.

3.3 The sovereign default of the States in the 19th and 20th centuries

As far it concerns a State there is often a misunderstanding when it comes to the terms bankruptcy or insolvency. The state under international law has immunity by virtue of sovereign rights and therefore cannot go bankrupt and have its assets liquidated in order to pay off its debts as in the case of companies going bankrupt and where creditors have defined claims on their assets by the Insolvency Law. However, the bankruptcy or the restructuring of the debt it is not an easy decision, as there are many consequences.

The result of such an action usually results in a capital market or trade blockade as trade credit is stopped, there is political pressure from domestic creditors, a high inflation occur in the debtor countries in many cases, there may be a confiscation of state assets outside the borders and the risk of a collapse of the banking system and the real economy in general. In the past two centuries there has also been the possibility of military conflict as a lever of pressure from creditor countries, but this is something that has not occurred much in modern history. The ways of restructuring a debt in which a state's bankruptcy has been dealt with over time have varied. In the early to late 19th century, committees were set up by lenders to enter into long-term negotiations with debtor states and usually the results were an extension of the loan term and capitalisation of interest in many cases.

From the mid-19th century to the early 20th century, negotiations usually resulted in the handing over of the management of state property, revenues and monopolies (such

[5] Hekimoglou, E. (2011) *The biggest state bankruptcies of all times*. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.

as railroads, state monopolies, revenues, taxation) to the lenders in order to repay the loan. In these cases, to safeguard the interests of the creditors, special committees were set up in the debtor countries to monitor compliance with these measures. One such committee was the international financial control imposed on Greece in 1898, after a brief Greek-Turkish war in 1897 caused as a lever of pressure, under which the "Greek Monopoly Management Company" was established to collect the revenues for the repayment of the loans.

During the inter-war period and due to the terrible disasters suffered by European countries, this way no longer had a reason to exist and lost its power, despite the increasing number of bankruptcies. After the Second World War and the oil crises of the 1970s, the restructuring method followed was mainly to prevent defaults and therefore the official default of the states. Within this framework, lenders, mainly foreign banking institutions and hedge funds, proceeded to provide new loans to the states before the latter declared a default, with the aim of repaying the older loans to the principal and providing a minimal stimulus to the state coffers.

However, these interest-bearing loans did not promote the productive development and restructuring of the country and therefore resulted in an increase in the debt of the borrowing state and only further slowed down the painful bankruptcy. Other rarer corresponding quantitative measures were, in some cases, a reduction in the interest rate, a reduction in the loan capital, and a change in the currency in which the loans were contracted. In modern times, with the development of the technology of the unimpeded movement of global capital and the growth of the financial system, the most common ways are debt rescheduling, with the postponement of maturity dates and "haircuts". This new way of capital reduction has been applied in many cases of default worldwide and Greece is a case in point, as we will examine in detail below.

It is particularly important for this method whether the imposition has been unilateral or whether there has been a small or large amount of bondholder participation in it. This way benefits the banking system in particular. Banking groups are required to value bonds on their balance sheets at market value, but these have now lost some of their value even in countries on the verge of default. Therefore, this practice of recognising even a part of the original capital secures them from the total zeroing of the borrowed capital and thus strengthening their cash reserves. Also in the modern era, the International Monetary Fund often takes a leading role in debt restructurings or as a creditor by imposing structural measures to the State debtor in order to generate revenues to repay the existing loans.

3.4 The continuous lending to the States

Despite continuous sovereign defaults over time, the process of sovereign lending by private financial institutions has not been minimised as it is considered highly profitable. A state cannot go bankrupt like a company and cease to exist, its wealth, movable property and sources of revenue are always a safe haven for the creditor. The important thing for creditors in the event of an imminent default is to prevent it by means of debt restructuring, which overwhelmingly includes terms that benefit creditors by prolonging the term and making the state's revenues available to creditors. Although it is argued that too many loans will never actually be repaid, this does not seem to be a deterrent for the IMF and the debt dealers as after the restructuring the borrower pays the interest and then secures it:

- To the lenders that they will continue to profit from the ever-increasing servicing rate,

- They will have control of the borrower's economy and therefore privileged access to the borrower's rich resources,

- that the banks will not have to write off the borrowed funds from their assets but will benefit from the conversion of their bonds since the State does not go bankrupt like a company

- And also the Banks will continue to lend using the loans of the states as collateral in a vicious circle of money creation.

The capitalization of interest and the new loans with higher interest rates and so on, combined with the new financial derivatives have created an exorbitant fictitious debt that has nothing to do with the global real economy which it oppresses. Lenders continue to make loans which are now essentially, with the development of technology, done through an algorithm and transfer mostly virtual amounts which are paid back - credited as loans to pay off arrears. On these amounts, of course, interest is capitalized, and the debt is constantly increasing. In this way, and in line with international practice, the credit risk of the lenders' investment ceases to exist and the repayment of the loans is generally assured.

Of course, to achieve the alignment of a state with the demands of the creditors without real negotiation requires a political scene friendly to the creditors, with the substantial contribution of all the heterogeneous political parties, and of course the intervention in most cases of the International Monetary Fund, which is called upon to assist with its advice as it has long experience and expertise and can also participate as a creditor of the country in question. For the above reasons in particular, it becomes clear why credit continues to be extended to a country whose economic data, deficit budgets, and increased lending rates are foreshadowing its bankruptcy.

Typically, the term bankruptcy or insolvency (which does not exist for a state, at least in the strict sense of the term as it applies to businesses) would mean that the state, invoking its sovereign rights, refuses either out of inability or intention to pay debts to private individuals, as it would otherwise lead to its destruction, with the parallel destruction of the social fabric of the country. Therefore, the debt is either abolished or drastically reduced taking into account the quantitative repayment of the existing loans so far. The creditors, for their part, take the credit risk results as businessmen - investors and a litigation process is initiated against the bankrupt state with possible recourse to international or non-international courts, in compliance with the rules of international law.

For this reason, the applicable law of the loan agreements, English or borrowing countries, and the courts responsible for hearing the appeal, are particularly important. The states usually are proceeding with debt restructuring without committing themselves to solving the problem of over-indebtedness through the parallel search for responsibilities for the country's dire economic situation. With regard to poor state management, initiating a process to seek accountability with criminal charges in all directions, political managers, banking institutions, state institutions for mismanagement of funds and generally on all those responsible , in order to seek the causes of the bankruptcy, at the local level would primarily create a positive impression abroad of the bankrupt state. This would make fully evident to the financial Markets the sincere intention of the State to proceed with proper structural changes and restart it on the right footing, which would only have positive results for the country's domestic and, above all, for future generations and the country's prospects in the international arena. However, this has not historically happened in the case of Greece, as we will see in more detail below, which is why the future does not look promising for the country. Few exceptions worldwide with some evidence of accountability and punishment have been in Iceland, Ecuador and Argentina, but where the large debt reduction shown in the latter, through a haircut of bonds as a percentage, was not real as these bonds were sold well below their face value in the secondary market at the time. Therefore, although the reduction was much smaller, an alternative nevertheless approach was applied.

3.5 The timeless causes of sovereign defaults

The main cause, especially until the middle of the 20th century, was borrowing to meet the needs of war operations and to rebuild the economy after the war. After the Second World War and the increasing trade interconnectedness of economies, negative circumstances such as the oil crises led to financial crises and bankruptcies, especially for trade-weak economies with trade deficits and budget deficits. Also, currency shocks such as the disconnection of the dollar from gold led even the strong European economies to borrow, which had a particularly negative impact on weak peripheral European economies. Another negative monetary expression was the speculative attacks on various currencies from time to time by international speculators.

The above causes when combined with chronic mismanagement and waste of government revenues lead mathematically to deficit budget which brings about the need to borrow again. However, continuous borrowing to repay the state's interest payments or consumer spending leads to an increase in public debt usually because of the very high interest rates due to the country's negative credit rating. In addition, countries within the Eurozone do not have the monetary tools to deal with an economic crisis such as devaluation and are also prohibited by the Maastricht Treaty from borrowing on their own initiative from alternative more advantageous lending offers outside the Eurozone, as well as the possibility of borrowing directly from the European Central Bank with lower interests.

The accumulation of long-term debt, due to the above reasons, combined with the destruction of the domestic economy due to the inability of the state to compete in trade with the more powerful countries of the European Union, leads to an increase in the trade deficit. The inability to support growth with infrastructure projects, innovation and government spending, without recourse to domestic or mainly foreign borrowing precipitates the country's unfavourable prospect of bankruptcy. In modern times and with the development of the Financial System most states induced leading to global crises consist of some common stages:

- The Interbank and financial system reduces the cost of money, the supply of credit increases and consequently the liquidity which leads to a continuous economic growth leading to overpriced assets such as housing (Real estate), company shares and bonds, creating "bubbles"

- When this supply and demand process reaches its peak or some random and unexpected event occurs and there are no more profit margins the bubble bursts, then there is turmoil, the banks stop providing money and the fall in prices begins which leads to a crash of the financial market and especially of the the real economy.

- Pressure from institutional players who were at the forefront of the crisis, with their presence or absence, propose measures to deal with the existing crisis and prevent a new one, and lead to the support of banks with state money, which leads to an increase in public debt.

- In the next stage, the interbank system, recapitalised by the States, provides the State with interest-bearing loans in order to recover from the crisis it created.[6]

3.6 The Bankruptcy results for a State's Economy

In case of bankruptcy, even on the verge of bankruptcy, the country's economy faces terrible problems. The banking system collapses as it no longer has the economic resources to support the economy with lending, the interest rates it offers are very high as it borrows as an institution at high interest rates as well, and also having invested over time, due to mispricing, in the bonds of a state is exposed to a negative

[6] Panagiotou, P. (2011) *The 'Greek crisis' case.* Athens: Livanis Publications. pp 116 - 121.

position as it now records a large amount of losses due to the inability to repay the bonds.

In the context of an over-indebted state's economy, given the negative image of private banking institutions, due to the fear of their collapse and bankruptcy by the rumours or the negative statements by officials, savers are rushing to withdraw their money from banks as at the same time the investors' capitals fly abroad, leading the market to suffocate due to a reduction in lending to businesses, the demand falls due to fear of bankruptcy leading in chains to a reduction in production and supply and therefore to the closure of businesses and an increase in unemployment, with inflation rising steadily as the currency loses its value and the market is now dependent on increased import prices.

The Stock Exchange is in the throes of the economic crisis that has begun and its institutional role is now weakening as lending through it becomes inadequate, with many stocks now being withdrawn from it. In addition to all this, the structural changes and austerity measures imposed by the IMF or the European Central Bank in the EU, involving the reduction of social benefits, the reduction of wages and pensions, the privatisation of state-owned enterprises and state property and the confiscation of state revenues to pay off the debt it makes obvious who actually bears the burden of the bankruptcy.

3.7 Principles of default: Approaches

In the international literature there are four main approaches to the legal nature of sovereign debt and default. The Anglo-Saxon, where the debt of a state is treated as a commercial transaction and in case of default bankruptcy law applies with similar forms of restructuring in favour of the creditor. This bankruptcy management approach advocates refinancing the existing debt, extending the payment period by postponing it in the long term, a small reduction usually in the interest rate of the new loan but also a haircut and reduction of the principal in some cases. The aim is to satisfy the majority of creditors by applying the "collective action clause" (CAC)[7],

[7] Economic and Financial Committee. [n.d] *Collective Action Clauses in the Euro area.* Available at :https://europa.eu/efc/efc-sub-committee-eu-sovereign-debt-markets/collective-action-clauses-euro-area_en

which means that the restructuring is decided by three-quarters of the creditors and is binding on the remaining one-quarter of the creditors. [8]

The second case of international theory and practice for managing a default is in terms of debtors and invokes a "state of necessity". This approach is accepted by the International Court of Justice in The Hague and by the UN International Law Commission when there are special reasons. According to the basic principle of this approach, "a state cannot close schools, universities and courts, disband the police, neglect public services and expose the people to chaos and anarchy, just to satisfy its creditors, foreign or domestic."[9]

An example of the invocation of the state of emergency is the refusal of the government of the dictator John Metaxas in 1936 to continue repaying a loan to the Belgian bank «Societe Commerciale de Belgique". The Belgian government appealed to the International Court of Justice of the International Law of the League of Nations, accusing Greece of defaulting on its obligations. The Metaxas government submitted a memorandum to the court putting forward as arguments for its refusal "its concern for the vital interests of the Greek people and for the administration, the economy, the state of health and the internal and external security of the country in the event of continued repayment of the loan[10]." The argumentation of the Greek Government focused on the fact of the occurrence of an emergency situation in which the governments are unable to fulfil their loan obligations to the people as well. Therefore, the painful choice between continuing to repay the creditors resulting in the disintegration and under-functioning of the welfare state and the moral, social and economic decline of the people or refuse, arises.

According to international theory, the obligation of the State is to refuse partial or total debt service, if this endangers the functioning of its public service functions and leads to the disorganization of the State. [11] The court held that it did not have

[8] Tolios, Y. (2011) *Debt Crisis, International Law and exit policies*. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper. pp 72 – 92.

[9] Tolios, Y. (2011) *Debt Crisis, International Law and exit policies*. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.

[10] Yearbook of International Law Commission, 1980, vol I, page 25.

[11] Worldcourts.com . Permanent Court of International Justice. (Judicial Year 1939. *The "Societe Commerciale De Belgique" .Belgium v. Greece Judgment.* Available at : http://www.worldcourts.com/pcij/eng/decisions/1939.06.15_societe_commerciale.htm

jurisdiction to determine whether the Greek State could repay the obligations without an investigation by a specialised authority that would ascertain the monetary and economic situation of the country. That means that the claims of the Greek government could be accepted if the circumstances asserted by the Metaxas government did exist.

A legal precedent was thus set that would subsequently be invoked by various governments such as Ecuador/Equator or Argentina when in 2003 Argentine President Néstor Kirchner chose to unilaterally cancel much of the debt instead of the IMF's imposition of continued austerity programs and impoverishment of the Argentine people; ***Pacta sunt servanda,*** unless the dignity and survival of a people is at stake. (In international public and private law).[12] Similar is the invocation of the principle of force majeure.[13] The term Force majeure / Vis Major refers to the occurrence of an unforeseeable and unavoidable event which prevents one party from fulfilling or performing terms of the contract and obligations under it. This term is a legal creation of French law and has no specific legal meaning in English law. Therefore, the possibility of default depends on the contract and whether the legal possibility of force majeure is included. For the term to be applicable and invoked by a party to the contract, there must be a reason outside of human power, its ability must be impeded to a particularly great extent, and the party invoking force majeure must have taken steps to mitigate the negative consequences as a result of invoking this fundamental change of circumstances to cancel a debt and refuse repayment.

The reasons for invoking force majeure are either political or legal reasons or reasons relating to extra-human factors such as natural events. In the first case, the party invoking force majeure may request an extension of the time for performance of the contractual obligation, while in the second case it may seek partial or total release from the loan obligations. Of similar importance and legal content is the invocation of the term 'due to unforeseen circumstances' by a party that is unable to fulfil its loan obligations because of a change in circumstances that have become burdensome to the detriment of one of the parties.

[12] Kurtz, J. (2014) *Adjudging the Exceptional at International Law: Security, Public Order and Financial Crisis*. Jean Monnet Working Paper 06/08. Available at : https://jeanmonnetprogram.org/wp-content/uploads/2014/12/080601.pdf (Downloaded: 10 November 2021)

[13] The Law Dictionary . *Force Majeure definition*. Available at: https://thelawdictionary.org/force-majeure/

Also another approach advocates the invocation of the right of the protection of national sovereignty and national interest with its exponent being the Argentinean Judge Calvo of the so-called Calvo Doctrine. The Calvo Doctrine holds that when a state finds itself driven to a loss of national sovereignty in conditions of economic deprivation due to the exploitation of its resources and population by a private investment or inter-state agreement or loans, it has the sovereign right to refuse payments and nationalization on grounds of national interest. This doctrine, which has been incorporated into international law since 1962, has been the basis for many nationalisations and dependencies of European companies from former colonial countries.[14]

The fourth approach concerns the concept of onerous and odious debt. Onerous is that which adds a burden that the debtors are unable to bear· Odious is that which is unfair and unreasonable that can be justified according to the various ways of implementing the loan agreement and of contracting and disposing of the capital. This approach is based on Alexander Nahum Sack's concept of odious debt that was incorporated into international law, according to which odious debt can be considered the one that is contracted against the people of a country without their consent but with the knowledge of their creditors[15].

This concept has its roots in the Leninist argumentation concerning the refusal of the newly established Soviet Union to repay existing tsarist loans. The scope of odious debt is not only limited to authoritarian and dictatorial regimes and their odious private or inter-state agreements to the detriment of peoples, but also any agreement or loan that violates the principles of international law such as unjust enrichment, fraud, usury, excessive cost of borrowing, threat or use of force and other similar acts contrary to the United Nations Charter of the Universal Declaration of Human Rights and all conventions protecting the parties and human dignity. Examples of countries

[14] Hershey, Amos S., (1961) . *"The Calvo and Drago Doctrines" (1907).*
Articles by Maurer Faculty. Available at: https://www.repository.law.indiana.edu/facpub/1961

Wenhua, S. (2006-2007) From North-South Divide to Private- Public Debate: Revival of the Calvo Doctrine and the Changing Landscape in International Investment Law.27 Nw. J. Int'l L. & Bus. 631. Available at:https://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1658&context=njilb&httpsredir=1&referer=

[15] Hertz, N. (2005) *The Debt Threat: how Debt Is Destroying the Developing World*. Athens: Kritiki Publishing.pp.221 - 229

that have invoked the term odious debt are Argentina, Brazil, Ecuador, Uruguay and Russia.[16]

If even an elected government falsifies the popular mandate and breaks the law when borrowing (due to corruption, personal enrichment, and overpricing, buying weapons to suppress the people or favouring minorities) it can be considered a cause of creating odious debt. Asserting the right to contest debt in the sense of odious debt is a powerful card in the renegotiation process. A strong government supported by an informed and active civil society can further strengthen the position of the government of the day at the expense of the creditors. In this case, the legal and judicial framework, domestic or foreign, and the terms of dispute resolution in case of a dispute are a very important element. The support of the domestic law of the country is very important and the establishment of an audit committee of undisputed authority will be an important factor in promoting the actions and achieving the objective. Also seeking assistance from UN committees and similar past movements and committees will lead in the right direction.

3.8 Historical approaches: Debt restructuring cases

In the context of defaults whether the debt issue is subject to international law or to the law of another state, it is up to the jurisdiction of the State to follow or not the terms of the contract as there is no mechanism to enforce the terms. However, a debt restructuring may not work as expected and may lead to litigation as in the case of Argentina. The question is to weigh up the benefits of a default versus a selective default with a parallel debt restructuring. The experience of the Argentinean bankruptcy and its restructuring is based on the invocation of the state of necessity. In 2001, Argentina declared a default on payments, putting forward for restructuring a sum of around EUR 70 billion.

Newly elected in 2003, Nestor Kirchner left no room for negotiation by unilaterally stopping payments, devaluing the national currency and nationalising sectors of the economy. After tough negotiations there was a 65% debt write-off accepted by 3/4 of the creditors with an extension of the payment period, low interest rates and a reduction in the nominal value of bonds. International rating agencies such as

[16] Tolios, Y. (2011) *Crisis, "odious" debt and default, The Greek… dilemma!* Athens: Topos Publications. pp 81-84, 86-89.

Standard & Poor's rated Argentina as selective default and Fitch with default. The Argentine government wrote off a large part of its debts but favourable clauses for creditors that accompanied the agreements led again to the same negative effect. After its bankruptcy in 2001 and the involvement of the IMF with the known structural adjustment measures imposed, Argentina proceeded to restructure its debt with the overwhelming participation of creditors and almost 91% of the bonds.

However, a problem arose with the refusal to participate by a group of speculative hedge funds of the so-called 'hold-outs' or vulture funds[17] that owned about 9% of the bonds governed by foreign law that blocked the possibility of paying the debt after the restructuring to the creditors who agreed until they were paid the amount they demanded, which was the full face value of the bonds they had bought at a low price on the secondary market in the period up to 2010.

The practice of buying bonds of countries with a high probability of default at a very low price and then refusing any restructuring and resorting to litigation, invoking the ***pari passu*** principle, is typical of this type of funds. The US court ruled in favour of hold-outs in the summer of 2014 for this part of the bonds of the 2001 restructuring, but the Argentine government refused to compromise with the decision since this would have triggered the "Rights Upon Future Options" clause and the terms of the bonds of those who remained outside the restructuring would have to be applied to the other creditors who accepted the restructuring. This would mean clearly a default as Argentina would not be able to repay them. The choice of the foreign law gives the hedge funds the possibility to litigate their claims in foreign courts, but nevertheless Argentina's refusal demonstrates in practice the Sovereignty of the State over the creditors. Since 2010 when the country went to the capital markets for new borrowing the debt has risen from 38.9% of GDP in 2011 to 102% of GDP in 2020. [18]

In the case of the Greek debt restructuring, in 2012, the "Private Sector Participation Obligation Management Facility Agreement" (PSI LM Facility Agreement) was signed by the Government, the Bank of Greece and the European Financial Stability Facility (EFSF). After negotiations, the majority agreed and the procedure of the

[17] Hertz, N. (2005) *The Debt Threat: how Debt Is Destroying the Developing World*. Athens: Kritiki Publishing. pp 119-122
[18] Argentina - Government Debt to GDP. Available at: https://tradingeconomics.com/argentina/government-debt-to-gdp

Argentina - GDP Growth Rate. Available at: https://tradingeconomics.com/argentina/gdp-growth

Private Sector Involvement (PSI) and the terms of exchange of the bonds and the introduction of collective action clauses were ratified by Law 4050/2012 entitled "Rules for the modification of securities, issuance or guarantee of the Hellenic Republic with the agreement of the bondholders. Eligible exchangeable securities were owned by a range of bondholders from European and financial institutions, pension funds and ordinary private investors. As regards the exchange of bonds, an old bond with a nominal value of 1000 **€** would be exchanged:

- With a new Greek government bond, with a nominal value of 315 €, with different interest rates and repayment from 2023 to 2042, with English law applicable,

- With other securities without nominal capital and with a yield linked to GDP growth

- A bond issued by the European Financial Stability Fund, with a nominal value of 150 **€** and repayable in two years.

However, the restructuring did not particularly affect creditors as the nominal value of the old bonds was significantly lower in the secondary market during the restructuring process than the reduced nominal value received in the exchange of the new bonds. The agreement was reached by the introduction of Collective Action Clauses (CAC) [19] which allowed the PSI to be completed even with the participation of the majority in order to exclude the possibility of the "collective action problem" and vulture fund type practices. The default due to the activation of CDS was avoided despite the adoption of law 4050/2012 which introduced retroactively to the old bonds with the Greek law applicable, the "Collective Action Clauses". In the period before the restructuring, the bonds governed by English law amounted to around €18 billion while those governed by Greek law amounted to €237 billion.

After the agreement, the new bonds are subject to English law and have the same legal status as loans from the EFSF. The ECB did not participate in the PSI for the 43 billion euro Greek bonds that it had bought at a reduced price on the secondary market from other investors through the SMP - Securities Markets Program, citing the exercise of monetary policy. Article 123 of the Treaty on the Functioning of the

[19] Michalopoulos, S. (2016) *PSI and collective action clauses.* Available at : Http://www.nbonline.gr/journals/3/volumes/543/issues/1417/lemmas/4890794. (Accessed: 10 November 2021)

Koutras, A.(2020) *PSI and ECB Bonds: The Story of Lost Billions* . 05.01.2020 .Newspaper Kathimerini. Available at : https://www.kathimerini.gr/economy/local/1058909/omologa-psi-kai-ekt-i-istoria-ton-chamenon-disekatommyrion/

European Union prevents the direct purchase of bonds and thus the direct financing of member states from the ECB, however apart from the European Central Bank, the European Investment Bank, other European institutions and central banks of some member states have purchased Greek bonds at a reduced price in the secondary market.

The ECB and the above institutions acted as investors and, exempted from the PSI, continued and continue to receive normal returns on bonds at their nominal value. This has raised many questions about the ECB's actions on Greek debt and how the restructuring was carried out. At the same time, the General Court of the European Union on 17-11-2021 dismissed a claim for compensation by Greek private investors against the Council of the EU and the European Commission whose bonds were included in the Greek PSI through the application of the collective action clause (CAC) and for the violation of the principle of proportionality by including them along with banks and other investment funds[20].

With the restructuring of the Greek debt there was a formal reduction in the nominal value of the debt so that the country would formally have the possibility to borrow from the markets again and repay its existing debt with a grace period, with a long repayment period and a lower interest rate.

The concept of odious debt was applied in 2008 in the case of Ecuador, a country that since 1990 has faced natural disasters (El ninio), falling of the oil prices and its percentage of exports, devaluation of its currency, a political coup and a junta. The newly elected president Rafael Correa convened a bipartisan debt audit commission under the country's attorney general and with the cooperation and assistance of CADTM[21] (Accounting commission for third world debt cancellation) and prominent economists and lawyers worldwide[22].

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[20] InfoCuria. (2021) *Responsabilité non contractuelle*. Available at : https://curia.europa.eu/juris/document/document.jsf?text=&docid=249401&pageIndex=0&doclang=fr&mode=req&dir=&occ=first&part=1&cid=548892

[21] Toussaint, E., Fatorelli, M.L., CADTM. and JUBILEE SOUTH. (2011) *We open the books of the Debt! What is the public debt audit and how is it done.* Athens: Alexandria Publications.

[22] Porzecanski, A.C. (2010) . *When Bad Things Happen to Good Sovereign Debt Contracts: The Case of Ecuador* - Article in Law and Contemporary Problems • Researchgate. Available at : https://www.researchgate.net/profile/Arturo-Porzecanski/publication/48376417_When_Bad_Things_Happen_to_Good_Sovereign_Debt_Contracts_The_Case_of_Ecuador/links/54f9d8890cf29a9fbd7c5601/When-Bad-Things-Happen-to-Good-Sovereign-Debt-Contracts-The-Case-of-Ecuador.pdf?origin=publication_detail (Accessed: September 2021)

The results of the audit revealed loan irregularities of the dictatorial regime in the period 1976- 1979, but also in the unilateral debt restructuring of 2020 with increased interest rates by the banks Smith Barney and JP Morgan, as well as the issuance of bonds that contradicted the rules and the US Securities and Exchange Commission. According to the SEC, the 2012, 2015 and 2030 bonds were unethical and onerous obligations and should be written off. The policy of unilateral total write-off nevertheless continued at a rhetorical level as the Korean government finally proceeded to repurchase the 2012 and 2030 bonds, which were sold on the secondary market at discounted prices, starting at 30 cents on the dollar, after their prices collapsed due to the December 2008 default and interest payments on the 2015 bonds.

In doing so, despite the fact that while the audit committee approved the above bonds as onerous, their repurchase by the secondary resulted in the purchase of 90% of these bonds at 1/3 of the price. Therefore, it formally brought the concept of onerous debt into the public domain and through the audit managed to intimidate the lenders and repurchase the debt at 1/3 of its face value.

The Ecuadorian government reacted under the weight of the debt and sought responsibility, and although no international guilty parties were sought, as no international court was addressed, it created the conditions for the accusations to be made against those responsible within the country[23]. The country sought alternative lending countries, such as China, which became its largest lender. Since 2008 and the fall in oil prices due to the global crisis, the devastating earthquake of 2016 that hit sectors as the infrastructure and tourism, the new fiscal measures that was adopted to repair the damage to flawed political economies and also the COVID 19 pandemic led to an increase in debt from 18.4% of GDP in 2011 to 68.9% of GDP in 2020[24].

Uruguay, having a highly developed banking system, was considered in 2001 one of the safest countries, with a GDP of 19 billion, despite the crisis that had started in 1998-1999 in Asia, Russia and Latin American countries. Its banking system accepted a large number of deposits and generally showed a high level of money liquidity. However, four years later, the debt went from 57% of GDP before the crisis to 108%

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[23] UN Development Programme. (2020) *Ecuador - Human Development Report .The Next Frontier: Human Development and the Anthropocene*. Available at : http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/ECU.pdf

[24] Tradingeconomics.com.(2021) *Ecuador - Government Debt to GDP.* Available at : https://tradingeconomics.com/ecuador/government-debt-to-gdp (Accessed: 18 December 2021)

of GDP in 2003, especially due to the devaluation of its currency and of the currencies of the countries that had their deposits in the banks of Uruguay. [25]

The country also borrowed from the IMF which provided liquidity to its banks, however there was an outflow of capital abroad after the country's economic data was made public and also a devaluation of the credit rating of the country and its banks, thus increasing its lending rates excessively. In this context, in mid-2002 its currency depreciated by 27%, leading to the closure of banks for five days. In less than a month 40% of deposits had gone abroad, the currency had depreciated by 58%. Protests and social unrest followed[26].

The IMF refused to help the Uruguayan government unless it stopped payments by converting its cash reserves into bonds for the benefit of creditors. Finally, after a loan from the US Treasury with little IMF involvement and the stabilization of bank liquidity, in May 2003 the country went into debt restructuring. The voluntary debt re-profiling, as it was called, led to an 8% reduction in external debt, with an increase in the repayment period by 5 years, without haircut or any change in interest rates.

This restructuring was rated as a selective default by Standard & Poor's and a default by Fitch rating agencies and so the interest rates remained high. The two state-owned banks were resolved with a state guarantee, and several private banks were rescued by the state. Although debt fell as a percentage of GDP from 90% in 2004 to 60% in 2010, austerity programs drove 60% of the population below the poverty line and the public debt rose to 73% of GDP in 2020[27].

[25] Tradingeconomics.com.(2021) *Uruguay - Government Debt to GDP.* Available at :https://tradingeconomics.com/uruguay/government-debt-to-gdp

[26] Tradingeconomics.com.(2021) *Uruguay - Total Gross External Debt.* Available at : https://tradingeconomics.com/uruguay/external-debt

[27] Tolios, Y. (2011) Debt Crisis, International Law and exit policies. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.

4. Public Debt. A Chronological Review

The issue of public debt has never ceased to be the subject of controversy among governments of countries around the world, but since the recent financial crisis it has been on the daily agenda of the media and therefore in the daily lives of citizens. However, a review of the phenomenon of public debt over the last two centuries is necessary, as it is a timeless phenomenon that affects the fiscal and monetary policy of states in general and the quality of life of citizens in particular. According to Hobsbawm, the impact of economic collapse on 20th century history is so great that it is impossible to understand the world in the second or half of the 20th century without understanding the impact of economic collapse[28]. In the last 2 centuries more than 250 bankruptcies have been recorded worldwide. From 1824 to 2003, 94 countries defaulted on their external debt service 235 times[29].

Most defaults on both external and domestic debt will occur during periods of major crises due to wars, economic crashes or political upheaval and regime changes. In the period 1810- 1870 Austria restructured its debt by unilateral cancellation, and replaced the older bonds with new bonds issued to foreign bondholders with a nominal principal reduced by 80% and an interest rate half of the original one, and had a new default in 1867 after the creation of Austria-Hungary. Spain is the country with the most bankruptcies in history. It has declared unilateral bankruptcy 13 times, 7 times in the 19th century alone. It also went into default and also replaced its bonds with new bonds of smaller denomination in 1811, 1818, 1880, 1823, and 1831.

Portugal also during the Napoleonic wars was forced to suspend payments on its foreign debt in 1834 and 1892 too, despite the concession of monopoly goods and the strict measures taken to service the public debt that in some cases absorbed 55% of public revenues[30]. During the 19th century the liberation struggles of many states led to a constant borrowing to cover both state functions and the costs of War enterprises. Almost all states were driven into debt default thereafter. Argentina (1830-1890) Brazil, (1826, 1898) Mexico (1827, 1867), Chile (1826, 1880), Bolivia (1874)

[28]Hobsbawm, E.J. (1994) *The Age of Extremes: The Short Twentieth Century, 1914-1991*. London: Michael Joseph.

[29] Miller, D.A., Tomz, M. And Wright M.L.J. (2006) *Sovereign Debt, Defaults and Bailouts.* Stanford University. Available at: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.422.3952&rep=rep1&type=pdf (Accessed: November 2021)

[30] Hekimoglou, E. (2011) *The biggest state bankruptcies of all times*. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper. pp 19 - 20.

Guatemala (1828, 1876, 1894), Honduras (1827, 1873) [31]. Also in the same period (1841) nine US states defaulted on their debt service.

Greece will go bankrupt three times in the 19th century (1827, 1834 and 1893) due to the unaffordable loans of independence, the loans for the establishment of the reign of Otto, the Cretan question and the political instability in the last decades of the 19th century that will result in the increase of the debt and the imposition of international financial control for the repayment of debts to foreign lenders after the coercion of Greece with the Greek-Turkish war in 1897. Greece at the beginning of the 20th century is under new international economic scrutiny with the obligation to pay unbearable war reparations to the Ottoman Empire after the instigated war of 1897.

This will be followed by a turbulent period of political turmoil with the predominance of the Eleftherios Venizelos faction and the conclusion of new loans to service the political costs of the Balkan wars and participation in World War I. After the end of World War I Greece would be stimulated to conduct the Asia Minor campaign and the external debt would swell amidst political unrest, the defeat and the needs of the huge influx of refugees from Asia Minor would also lead to new borrowing. The American crash of 1929 *(The Wall Street* Crash*)* negatively affected all economies and certainly Greece's and after the devaluation of the drachma, Venizelos officially announced in 1932 the bankruptcy of the country and the suspension of foreign debt payments. A turbulent political period followed, with upheavals due to the economic crisis and amidst short-lived governments and military coups, which led to the establishment of Metaxas' dictatorship on August 4, 1936.New loans were taken out with Germany and England and three years later the World War II begun.

Denmark also declared bankruptcy and default in 1813 due to naval warfare against the United Kingdom during the Napoleonic Wars. Great Britain was also the first country in Europe to declare bankruptcy in 1345, due to the Hundred Years' War, with King Edward III going into a debt haircut at the expense of the Florentine bankers. France had gone bankrupt eight times by the 18th century, and French kings usually solved the problem of repaying existing loans and writing off debts in a special way, by executing creditors. In the last two centuries France has not gone bankrupt yet, at least until today.

[31] Miller, D.A., Tomz, M. And Wright M.L.J. (2006) *Sovereign Debt, Defaults and Bailouts.* Stanford University. Available at: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.422.3952&rep=rep1&type=pdf (Accessed: November 2021)

Germany and neighbouring states, such as 19th century Prussia, also have a history of bankruptcies in 1807 and 1813 especially due to the burden of financial costs during the Napoleonic wars. The swelling of national debt in the 19th century continued with obvious consequences in the 20th century. Up until World War II, the causes were mainly the result of the destruction of economies and infrastructure and trade due to the two world wars, changing political regimes and the civil wars that broke out during and after World War II. A typical example was Germany which declared a default in 1931 under the burden of reparations to the allies and the hyperinflation it faced. This would be followed by the Second World War where, after its end, it would declare bankruptcy under the burden of war reparations in 1948 and 1953.

The salutary intervention of America, which held most of the debts of all European countries and Germany, and the pressure on its creditors to cut Germany's debt by 50%, and at the same time the provision of financial aid and extension of the repayment period to 30 years lead to Germany's rapid economic recovery. An informal third default will follow the unification of Germany and the non-amendment of the 1953 London Agreement on foreign debt will allow Germany to avoid paying the reparations and war loans it had received under Nazi occupation violence.

Russia has defaulted five times, twice in the 19th century (1835, 1885) and three times in the 20th century. In 1918 during the Bolshevik revolution and after taking power, the Bolsheviks would refuse to pay the Tsarist debts. In 1991 during the fall of the Eastern bloc and the country's transition to an open market and in 1998, which led to the disconnection of the rouble from the dollar, Russia will default. However, the increase in oil and gas prices helped it then to get rid of all its loans by 2006.

Argentina has also declared bankruptcy 7 times since independence in 1816. The 2002 bankruptcy was one of the harshest, with major unrest and violent social uprisings and a simultaneous rise in poverty to high levels.

Ecuador has also defaulted 10 times since 1830, most notably the 2008 default where the state government refused to pay the debt calling it «immoral and illegal." President Rafael Correa called the creditors "real monsters" and announced that he would not pay the $31 million, proceeding after negotiations to replace the old bonds with a new 35 cents to $1 ratio.

Turkey also faced bankruptcy in the 19th century, specifically in 1875 as an Ottoman empire, ceding fiscal sovereignty to its creditors in exchange for debt payment. From 1927 and after the establishment of the Turkish republic, several economic crises would follow such as 1994, 1999, 2000 and 2001, with severe trade deficits, unlimited lending by the banking sector and the nationalization of bankrupt private banks that would lead it to the International Monetary Fund in 2001 as it was unable to get funding through the capital market. Since then the country has continued to be under the burden of public debt and the country is again today in a monetary crisis.

Iceland, which was voted in 2007 as the best country to live in and as one of the 4 most productive countries in the world, will become the first country to be driven into bankruptcy after the collapse of Lehman Brothers in 2008, followed by the three large banks of the country, which will then be nationalised. Public debt will increase, as huge debts will be added by the nationalisation of private banks leading to protests across the country.

After three cycles of selective private bond defaults in 1998 -1999, Ukraine went through a $3.3 billion bond swap. The financial crisis continued with the country under IMF rule amidst an unstable political climate with the overthrow of the government and civil war when in 2014 the government accepted a 15 billion loan through the purchase of Ukrainian bonds from Russia. This was viewed negatively by the European Union, the IMF and the USA.

4.1 The World Debt in the 20th century .The crucial role of the United States of America

The United States will be a special case throughout the 20th century in the development of the economies of nations worldwide up to the present day. Historically the US has engaged in foreign borrowing from the UK and other countries such as France as well as from private investors. This borrowing was done through the issuances of government bonds which were invested in by British banks and other European investors. The onset of the industrial revolution in Britain spread to Europe and also to the US which now used foreign borrowing for productive investment and at the same time used their capital production for investment and for making profits by lending to other countries states. During the First World War the US was the main lender to European states for their war effort. Initially it came from private investors but after the US joined the war the funding was mainly from the official government[32] . The US will continue lending many countries after the end of the war to support the restoration of the damaged structures and the productive base of the countries involved. The USA also took over the reins of the international financial markets and became the main lenders and regulators of capital flows worldwide.

In the early 20th century there have already been cases of financial crashes such as in 1907 when the stock market lost more than half of its value due to the New York gold bubble, leading the major banker J.P.Morgan to admit that markets need government intervention to function[33]. The result was the creation of the US Federal Reserve (FED) in order to prevent crises and act as a lender of the last Resort. The restart of the economy created recovery aspirations, the banking system expanded, interest rates were low and stock market activity increased creating another "bubble" of false expectations and fictitious capital that would burst in October 1929 (The Great Depression). Within 4 years the country's GDP would drop by more than 50%. Most of the banks went bankrupt[34] .The invisible hand of the market will not prove to be able to prevent the crisis. The common gold standard that was in operation at the time and regulated the economic relations of states, such as the euro in the Eurozone countries, prevented the issuance of money as a solution in order to stimulate the market and avoid the inflation.

The New Deal and the new state interventionism with increased government spending and the regulation of the functioning of markets and the banking system such as the introduction of the Glass-Steagall Act attempted to revive the economic damaged. The new economic model will be based on Keynesian economic theory in order to create the demand so to deal with the consequences of the crisis. This will change drastically after 1980. Subsequently, it proved the efficiency of the Keynesian approach, largely as the immediate results were an increase in GDP and a decrease in unemployment. Until the first results of the recovery of the production process were seen, it was reasonable to increase the public debt due to government spending. The Cassandras of the new extreme Neoliberalism created a negative climate for the

[32] Gogkas, P. and Chrysanthidou, E.(2011) *The Transformation of International Lending over Time*. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.

[33] Varoufakis, Y. (2011) *The Global Minotaur: America, Europe and the Future of the World Economy (Economic Controversies)*.Athens: Livanis Publications.

[34] Ibid,101-102

increase in public debt that seemed to be the ultimate goal instead of the support of the demand, and led to a change in fiscal policy with reductions in government spending to reduce the debt which resulted in another economic crash in 1938. The same response model will be repeated in the following decades in several countries with the same negative results.

The start of World War II appeared as Deus ex machina for the major power and the US participation in the war in 1941 ended the Great Depression as it created new conditions with the creation of factories to produce weapons and ammunition for military operations to Europe and with continued US lending to European countries to support their war operations. The US consolidated its world dominance in the economic and trade sector by increasing its productive power and with its role as a lender and validated it globally by the demonstration of military power and the dropping of the 2 atomic bombs in Hiroshima and Nagasaki.

4.2 The US after World War II

The end of the war would find Europe completely devastated by bombing and unable to recover. The US will shape the new Europe as the main creditor financially and shaper politically mainly by providing new loans accompanied by the implementation of similar policies as a condition of receiving them.

The Cold War will start and the Marshall Plan money will be pushed as part of the recovery aid to allies and Axis powers. US dollars will flood Europe and will largely define and determine the economic, financial, political and social infrastructure of many European states, which have never ceased to be essentially satellites interconnected with the US either overtly or covertly.

After World War II and for the following decades followed a period of recovery with a Europe trying to find its feet with new loans and obligations in a new world situation whose economic/monetary/political foundations had been laid by America. The Cold War, the Truman Doctrine and the establishment of NATO in 1949 would lay the foundations for the new post-war period in a multi-layered context.

4.3 The Great Depression and the way to Bretton Woods

Historically, as mentioned already, all nations borrowed to support their development, their war efforts, the payment of war reparations, and most importantly the payment of other outstanding and existing debts. In the 18th, 19th century the lenders are mainly private individuals holding bonds or private banks and less so states, hence the increase in the debt of states is constantly and simultaneously increasing. This debt is called, according to the criteria of currency or nationality of the creditors, domestic or foreign debt. However, the above criteria of separation will cease to be particularly secure in the future as the transfer and movement of capital between countries becomes easier with the development of technology.

At regular intervals in their recent history states have been unable to repay their debts and declare bankruptcy where various forms of debt restructuring take place as we will examine in more detail below. However, these defaults by states lead to economic crises that negatively affect the GDP of the debtor country and negatively affect the development of the other countries which, as early as the 18th and 19th centuries, have been developing increased trade between themselves and an ever-increasing borrowing through the mutual purchase of government bonds.

The countries that went bankrupt and refused to pay faced the possibility of war being declared by the countries of private creditors, especially in the 19th century, but also a trade blockade or exclusion from the capital market. The majority of the default cases, e.g. the default on existing debt, resulted in one way or another in various forms of debt restructuring or debt extension to restart debt repayment, usually by imposing unsustainable interest rates or international financial control by creditor representatives imposing severe austerity measures to save the resources needed to service the debt. The reduction of state spending and social benefits, the increase in taxation, the devaluation of savings and property, and the decomposition of the welfare state were the proposed solution of economic liberalism for the continued repayment of debt.

Exactly the same, with slight variations, was applied during the period of economic crisis following stock market crashes such as the one in the USA in 1929. Historically in certain periods of euphoria," bubbles " are created mainly by speculators who search for easy and high profit by creating false impressions of fictitious profit through the news media and the governments they control and so dragging initiated and uninitiated private investors, public utilities and pension funds to invest their money and savings. The 1930s in the US had these characteristics. The crisis had kicked into gear and it was only a matter of time before the bubble over-inflated and, as a matter of law, the fruitful promises were shattered and collapsed. The dream gave way to the nightmare. On the New York Stock Exchange (Wall Street) there was the biggest increase for securities. In particular, there were reported purchases of 5 million shares in November 1928, and about a year later, in October 1929, the number had risen to 13 million shares. The crisis began on 24 October 1929 and a few days later, on Black Tuesday 29 October, 16 million shares were sold on the stock exchange. In this context many businesses and banks declared bankruptcy, savings and property were lost and high unemployment and inflation followed[35].

The memories of previous stock market bubbles, (In 1873, 1893 but especially 1907) were still fresh and after the creation of the Federal Reserve there was the belief that there would be no more crashes, no more recessions. They were wrong. By 1933 all the gains of the previous golden decade of the 1920's had disappeared. US Gross national income fell over 65% from 1929 to 1933. Initially there was a numbing of the authorities as there was the hope of the invisible hand appearing to take the damaged market by the hand and lead it out of the depression. However it never happened. Hope gave way to panic, fear, despair, poverty and anger. During the crash, America, like other economies around the world, was shackled to the gold standard, and its exchange rates that denied them the ability, especially in times of crisis, to use their monetary tools and pour money into the market to revive it. The fear of inflation was minimised because of the Gold Standard. Initially US President Hoover would pursue liberal economic policies by raising taxes, reducing government spending to so as not to have large deficits.

Three years after the American crash, the newly elected US President Roosevelt announced the New Deal after first leading the US off the gold standard which allowed him to implement his program: social benefits, legislation to regulate bank

[35] Psalidopoulos, M. (2020) *Economic Thought and Policies in the Interwar and Postwar Period.* Available at : https://eclass.uoa.gr/modules/document/file.php/econ185cf%82%201918-89.pdf (Accessed: October 2021)

operations, public investment that stimulated employment, social benefits and policies to reduce unemployment. The first positive results did not take long to show, yet the voices of liberalism for a parallel increase in public debt and inflation halted the program, but temporarily as the onset of World War II as a Deus ex machina helped the US to unleash its productive power through entrepreneurship and innovation and by lending Europe as if there were no tomorrow.

4.4 The Bretton Woods global monetary exchange rate system.

As World War II was coming to an end a particularly significant event would have taken place. The United States would convene the Bretton Woods Conference to determine[36], with the participation of the other nations, the economic and monetary architecture of the new dollar- centred system under which the world devastated economy would develop while establishing mechanisms to monitor and control the proper functioning of the financial system. At the Bretton Woods conference two approaches were dominant: The Keynesian approach advocated by the well-known British economist John Maynard Keyns and the more neoliberal approach of the American representative Henry Dexter White[37].

The importance of these two approaches and their influence should be noted as it has since then, with variations according to time and situation, run throughout world economic history up to the present day especially in times of economic crises and recessions. Keyns proposed the establishment of an International currency union that would function as an International Central Bank with its own currency (Bancor as he called it) as an international means of payment and as a means of preventing new recessions for the increasingly interconnected countries economically through the Trade.

An international monetary union would ensure a stable trade framework for the member countries thanks to a system of stable exchange rates without any particular precarious fluctuations. Within this framework, the use of currency devaluation as a

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[36] Bordo, M. (2017) *The operation and demise of the Bretton Woods system: 1958 to 1971.* Vox EU. 23 April 2017.Available at : https://voxeu.org/article/operation-and-demise-bretton-woods-system

IMF .[n.d] *The end of the Bretton Woods System (1972–81).* Available at : https://www.imf.org/external/about/histend.htm(Accessed: 20 October 2021)

[37] Hertz, N. (2005) *The Debt Threat: how Debt Is Destroying the Developing World*. Athens: Kritiki Publishing. pp.126 - 129.

means of increasing competitiveness for deficit countries would also be prevented, which would otherwise affect negatively trade competition within the Union or would inevitably be destroyed by the accumulation of deficits. Keyns proposed that, in order to avoid the disastrous imbalance of surplus and deficit countries, the International Monetary Union should offer each member the possibility of borrowing from the international central bank at 0% interest for 50% of its deficit and at a fixed rate for the remaining deficit. In this way, the deficit countries would borrow on satisfactory terms but would also have the fixed interest rate for half of their borrowing, and in this way the surplus countries would indirectly finance the deficits of the economically weak countries that they themselves had caused within the framework of international trade. In this way the great imbalances in the world economy that cause chain crises and recessions would be avoided. The mechanism of recycling surpluses from the surplus to the deficit countries that Keynes proposed somehow protected the deficit weak countries from complete dependence and over-indebtedness to the surplus countries of the Union.

Inevitably in a union of countries there will be surplus countries but also as a result some economies will be in deficit, the best way to minimize the problems of imbalances in the trade balances of mainly deficit countries is to redistribute capital, to recycle the surpluses of the surplus countries to the weak countries so that the system balances out. This redistribution of capital could take a variety of forms, with investment in the deficit countries, with funds to stimulate demand, or with a reduction in the tax burden on their export companies with a time adjustment.

The example of the US is typical and could serve as a model as they have 2 mechanisms for recycling surpluses after WWII. A Transfer Union (Resource transfer mechanism) where unemployment benefits and health care in the deficit states are paid by the surplus states and a second mechanism operating through the military-industrial complex, which determines in which state the factories producing new military products will be built, thus helping the development of the place and the creation of new jobs through productive investment. Keynes was calling for a mechanism of redistributing surpluses as he believed that otherwise a union could not develop properly and believed that this was the main reason for imbalance between countries. The weakness of a country would turn into a spark of disaster for the Union as if a country faced deficits it would have to borrow at high interest rates and a vicious circle would be created. Deficits would increase, taxation would increase, and the reduction of government spending as a way of coping would lead to the collapse of the country's exchange rate and as a result the surpluses of the surplus countries would decrease and the deficits of the other deficit countries would increase[38]. Keyns' proposal with the creation of the Union was intended to prevent future imbalances in the World Monetary and Trading System through a system that would support all countries equally through the operation of a Central Bank, however the strong opposition of the American representative led to the rejection of the proposal.

The second view, which prevailed, was the American view expressed through Harry Dexter White, an American economist, who proposed the creation of a system of fixed exchange rates with the dollar as the base currency. As a result, a fixed exchange rate system was created with the participation of 44 countries which set the dollar as the central rate of this world system, linking it to gold at a fixed rate of 35 dollars per ounce of gold. Fluctuations were allowed only within +-1%, and this minimal deviation was ensured by the strict restriction of funds from one country to another and the commitment of member countries to buy and sell dollars to keep the exchange rate stable. Devaluation within this framework was allowed exceptionally and after permission, as in the case of Greece, which devalued the drachma by 50% after proving to the Union that it could not balance its budget with its existing dollar reserves, trade balance (transactions) and capital flows[39].

The existence of a single currency or the maintenance of a fixed exchange rate with a currency, however, prohibits devaluation and other methods of mitigating trade imbalances and therefore requires the introduction of a mechanism for redistributing surpluses to bring the system back into order. This necessary condition did not exist in the EU from the outset, leading mathematically to the over-inflation of the trade deficits of the countries of the South in relation to the powerful countries of the North. Another similar example is Argentina, for which maintaining a fixed exchange rate with the dollar has gradually led to the accumulation of huge trade deficits that have led to bankruptcy, in the absence of a mechanism for redistributing surpluses that would bring trade deficits into balance. This union of fixed exchange rates with the

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[38] Varoufakis, Y. (2011) *The Global Minotaur: America, Europe and the Future of the World Economy (Economic Controversies)*.Athens: Livanis Publications.

[39] Ibid ,pages 130-131

dollar, created at Bretton Woods, consisted of both institutions which would act as guardians and rescuers in the event of imbalance, the International Monetary Fund (IMF) to provide short-term financing for countries with trade deficits (the sum of the trade balance and the capital account) by granting loans under strict adjustment conditions to restore exports and reduce imports. In recent decades, its role has been mainly to provide financing for the repayment of creditor loans too to correct the trade deficit. The second institution was the establishment of an International Bank of Reconstruction and Development (IBRD), later the World Bank, which had the long-term objectives of lending to a country to rehabilitate the economies of countries through investment. The Bretton Wood system placed the US as the regulator of world trade with the dollar as the world's trading currency.

No central mechanism for recycling surpluses was envisaged unlike the Keynesian approach and while the US and some other countries would accumulate huge trade surpluses then some others would run excessive government deficits[40]. Any investment to deficit countries had left to the disposal of US foreign policy. The next decades would be a period of recovery for Europe which will struggle to find its way slowly into the new Bretton Woods economic political system. The Truman Doctrine and the establishment of NATO in 1949 will validate US power in the new post-war period on a very flat framework[41].

4.5 The USA and the United Europe after Bretton Woods

The development of the Germany's recovery from the ashes of the war with its rapid industrialization due to economic aid and debt reduction of American policy led to the resurgence of Germany with the parallel strengthening of the German mark despite the opposition of General Charles de Gaulle. Similar was the aid to Japan in order to strengthen its economy and in this way the Bretton Woods fixed exchange rate union was stabilized and the US had created two economical key pillars, the Germany in Europe and Japan in Asia. The US lent money to Japan and Germany and these countries exported to other countries which were also financed by America. A cycle of trade was created and at the same time the repayment of the loans made to it by the

[40] Klein, N.(2010) *Fences and Windows: Dispatches from the Frontlines of the Globalization Debate* . Flamingo Publications .pp.90-93.

[41] "Hadda be Playin' on the Jukebox" / "Capitol Air" by Allen Ginsberg. Mind Breaths, published by City Lights Publishers (1975)

favoured countries of Europe and Asia was going back to USA either through direct investment or through financial institutions in the Wall Street.

The printing of huge quantities of dollars has caused inflationary pressures and doubts about the management and proper functioning of the system. The tremors that continued with the expression of discontent by European states, the unilateral devaluation of the British pound sterling by 14% and the increase in oil prices expressed in dollars, led to the abolition of the Bretton Woods system of exchange rates on 15 August 1971. The USA intervention reinforced the stabilisation of the world market through this peculiar way of redistributing its surpluses which proved able to maintain this system until 1971 when President Nixon abolished the convertibility of the dollar into gold under the weight of the growing US debt due to the wars and the trade deficit. The abolition of the system led to a devaluation of the dollar and an increase in US exports but on the other hand to a devaluation of the dollar reserves of the other countries with an appreciation of their currencies and a decrease in their exports.

The increase in oil prices in relation to the appreciation of countries' currencies against the dollar resulted in a decrease in exports to European and Asian countries. The US continued to be the regulator of the global economy, but this time without the obligation of having its own global reserve currency, the dollar, in a stable relationship with gold. The US now also formally had the ability to print dollars according to the needs of their respective politicians. The establishment of their currency as a means of trade and reserve currency provided them with this advantage. The abolition of Bretton Woods created new shifts in the global economy. By decoupling the dollar from gold, the US would manage to become more competitive trade-wise and by raising real interest rates relative to European rates to attract foreign capital either for investment or financial derivatives.

This has had a negative impact on the servicing of loans to the US which has contributed to the increase in debt of most countries. The US now created a new situation by assuming a new role as the system was destabilized due to its deficits and the global increase in debts after the dollar was disconnected from gold. An illustrative statement by Paul Volcker, later chairman of the Fed, on the prospect of ' a controlled break-up of the world economy, which is a legitimate US objective for the 1980s ' will be in the centre of the new American foreign policy[42] . The new floating exchange rate system again enabled the US to play a decisive role in the world economy not as the lending and exporting country necessarily, but mainly as the borrowing country, creating also those conditions for attracting capital and constituting an increased active demand for other countries, thus redistributing imported capital in a new global context. Floating exchange rates have more risks (inflation, stagnant inflation, foreign investment avoidance, global trade imbalance) and it is legitimate and necessary to harness them globally and for the countries themselves since " a promising framework for managing integration was needed" according to Volcker and therefore, "a European monetary system and the force full program to stabilize the dollar at home and a road and abroad can help point to solutions" [43]. The exchange rate is very Important for the International trade, for this reason despite the fact as Volcker points out that we may not be able to talk about an "equilibrium rate" nevertheless the agreement to set in a general framework limits is necessary for common development and it is up to some leading Nations to determine the acceptable limits in the International markets.

Therefore the creation of a common European monetary union in a broader regional framework of countries would create conditions for trade and stability of the new system, placing Europe in a similar position to Japan and the USA. China, at the time, was in the opposing camp pursuing its own economic policies and will come to the fore after the end of the Cold War. As Volcker points out the countries of the European Monetary Union will lose a large degree of autonomy and national economic problems will continue to exist and possibly the stronger of these countries will have to define tolerable limits , stressing that stability in International markets will lead to more appropriate decisions in each country's economic policy. Common international economic policy is now posed as a necessary step between the US, Japan and the future European monetary Union, as they share common interconnected interests in International trade and are also linked to third world raw materials.

The question for who will govern this system is answered by the former FED director, the IMF, with the continued consultation among the trilateral countries as Japan ,

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[42] Volcker, P.A. (1978) *The Political Economy of the Dollar*. Federal Reserve Bank of New York. Available at : https://www.newyorkfed.org/medialibrary/media/research/quarterly_review/1978v3/v3n4article1.pdf (Accessed: 29 December 2021)

[43] Ibid, page 10.

Europe and the United States .As he points out in the conclusion of his speech in November 1978 at the University of Warwick, the new world economic system cannot be based on the USA alone "for we are no longer the dominant power of Bretton Woods" but also with the assistance of the others so that "the managing integration" can be realized. The effort of the FED and its later chairman to strengthen the dollar as a reserve and transaction currency continued vigorously which resulted in the strengthening of the US and through their economic policies an international inflation was caused and had a negative impact on oil prices e.g. for Russia, but also in the creation of debts and crises for Latin American countries due to the restructuring and the subsequent collapse of the Japanese economy. Therefore, due to the dollar as a global reserve and transaction currency every monetary tightening or loose process in the US had a higher damaging impact on the other countries.

The influence of the US through the dollar on the other countries would increase more during the 1990s. The 1980's with the oil crises and the increase in international prices and interest rates would lead to the bankruptcy of many Latin American countries as borrowing in foreign currency became much more difficult and therefore foreign debt was on the rise.

Mexico declared bankruptcy in 1982 and ask for renegotiation which the creditors agreed to but on the condition that the IMF would intervene and implement its measures to save money in order to repay the debt. These measures resulted in increased unemployment, wage cuts, reduced imports and a decline in GDP that continued in 1994 with a devaluation of the Mexican currency and then a multi-billion dollar bailout by the US government[44]. During the same period Turkey defaulted in 1978, Poland and Romania in 1981 and Serbia in 1983. Also in the 1980s almost all African countries defaulted in the 1980s.

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[44] Hekimoglou, E. (2011) *The biggest state bankruptcies of all times*. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.p. 24.

4.6 The Neoliberal economic approach after the oil crises

With the course of the world economy so far becomes obvious that the phenomenon of debt and defaults are common events in the history of all states especially in the last two centuries. The causes of debt creation in the 18th, 19th and up to the mid-20th century and the two world wars were mainly the financing of warfare and consequently the need for new financing to restore the damaged infrastructure and economy. In most of these cases, the defaults were mainly due to the inability to service the interest payments of the loans. From WWII onwards, the lending by the US and the Western banking institutions even to Eastern Bloc countries (High interest loans to Eastern Bloc countries that were in rupture with the Soviet Union) and Third World countries continued increasing the debt to a large extent. Especially after the increase in the US interest rate which resulted in an increase and inability to repay the debt. The mainly liberal policies that will be implemented combined with the mismanagement of fiscal policy and the subsequent participation in the financial market derivatives will push debts out of control. As we have seen, the role of the US in the 20th century is particularly important if not decisive for the world economy as apart from the lending to Europe on which we will focus from now on, the dollar as the world reserve and trade currency determined and will continue to determine until further notice, the economic development and growth of all states and their public debts.

In the late 80s and 90s the global chessboard had been shaped differently with America sharing the leadership of the global economy accompanied with the leading powers of the European Union (mainly Germany and France). In this context, the fall of communism and the Eastern bloc will create new conditions for the global market. China due to its peculiar regime and cheap labour attracted a large number of American, Japanese and European companies which resulted in a gradual increase in its economic and trade power.

Since 1980 and the election of Ronald Reagan, new liberal policies have been promoted which consider state intervention as destructive to markets which are supposed to be self-regulating. The lessons of the 1929 crash and the countless financial crises will not be heeded and will lead inevitably to the 2008 crisis. Supply side economics with the minimisation of critical intervention in the economic sector, the gradual liberalisation of labour restrictions and the parallel increase in state spending on weapons systems will be a common state policy for many countries such as England with Margaret Thatcher's policies.

In addition to the wage cuts, the reduction in taxation, especially for the upper classes as part of the trickledown effect, the reduction in the welfare state, the privatisation of state-owned companies and the lifting of restrictions on the financial sector had dramatic consequences for the world economy in the long term and lead to the new current economic crisis.

4.7 The deregulation of the banking system, financialization and the new economic weapons of mass destruction

The banking system has traditionally been an important agent of the redistribution of capital for the development of deficit economies from the surplus countries through lending and also within countries by lending to businesses for productive purposes or to households to meet their needs and welfare. Savings also support a country's economy in the form of loans or by investing in new foreign innovative productive companies. Banks mediate between lenders and borrowers and assess the credit risk of the transaction, creating a more personalised relationship between the parties involved with the bank as the common denominator. From 1980 onwards with the new liberal policies and the deregulation of international capital markets and the excessive technological development, the capital market will be depersonalized and the role of banks will be downgraded due to the new role of stock exchanges as a means of raising capital[45].

The new way of financing and generating profit appeared to be more profitable for investors and borrowers as there was no charge on the bank's individual profit rate and the valuation of the transaction risk was happening by the investors, the market itself, and also from the independent credit rating agencies through the information they provided to the stakeholders. As far it concerns the intergovernmental loans, there are three private credit rating agencies such as the Standard & Poor's, Moody's,

[45] Gogkas, P. and Chrysanthidou, E.(2011) *The Transformation of International Lending over Time*. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.

and Fitch, which played a controversial role[46] in the rating of sovereign bonds, CDOs and CDS, thanks to which the determination of their prices were based. With the development of technology and the deregulation of the banking sector, large flows of capital were directed to Wall Street, the world's largest financial centre, and new easy and opaque ways of making profit were created. Investing in the real economy did not yield large profits and also investors had to wait for returns in the long run, whereas with the new ways devised by the various financial institutions such as that of Goldman Sachs and J.P. Morgan, the profit was greater and more immediate. Also, this way of making profit, which was none other than the production and sale of CDOs and CDS risk insurance, enabled the banking institutions to push bad loans and all kinds of other loans out of their coffers, no longer with the risk of non-repayment, while also making a profit by continuously borrowing at high interest rates, relative to what they were borrowing from the central bank. These derivatives were described by the great investor Warren Buffet as 'financial weapons of mass destruction',[47] although this didn't prevent him from betting on them[48] and gave concern to experienced global investors such as George Soros who said that he used them sparingly because he had difficulty understanding how they work[49].

The high rate of profit and risk did not deter international investors and speculative funds from buying CDOs and CDSs who were probably betting on a government bailout and in the event of a collapse. This new financial product, CDO or Collateralised Debt Obligation as it was called, a highly complex product mainly responsible for the global crisis, consisted of chopping up and securitising various

[46] Viswanatha, A. and LaCapra, L.T. (2013) *U.S. government slams S&P with $5 billion fraud lawsuit* . Reuters. February 6, 2013. Available at : https://www.reuters.com/article/us-mcgrawhill-sandp-civilcharges-idUSBRE9130U120130206

- The Guardian .(2017) *Moody's $864m penalty for ratings in run-up to 2008 financial crisis*. 14 Jan 2017 . Available at : https://www.theguardian.com/business/2017/jan/14/moodys-864m-penalty-for-ratings-in-run-up-to-2008-financial-crisis (Accessed: 10 October 2021)

[47] Cox, J. (2018) *The value of what Buffett called 'financial weapons of mass destruction' is plunging*. CNBC. 05/04/ 2018.Available at : https://www.cnbc.com/2018/05/04/the-value-of-financial-weapons-of-mass-destruction-is-plunging.html (Accessed: 15 October 2021)

[48] Epstein, E.J. (2009) *Warren Buffett's Hidden Stake in Financial Weapons of Mass Destruction. Vanity fair.* 02/02/2009.Available at : https://www.vanityfair.com/news/2009/02/warren-buffetts-hidden-stake-in-financial-weapons-of-mass-destruction (Accessed: 15 October 2021)

[49] Chancellor, E. (2000) *Devil Take the Hindmost: A History of Financial Speculation*. Athens: Livanis Publications.
As quoted by Edward Chancellor in his book , in April 1994, George Soros testified to the Banking Committee of the US House of Representatives that there are so many of them (derivatives) and some of them are so obscure that the risk involved is not fully understood by even the most skilled investor, and as he said '' I suppose I am one of them''. Some of these tools seem to be specifically designed to allow institutional investors to undertake reckless ventures that they would otherwise not be allowed to undertake as he pointed out. (Quoted in Richard Thomson ,Apocalypse Roulette,London,1998,p.107)

loans of individuals, companies, institutions and states and placing them in a package, which was evaluated and sold to interested investors.

These CDO packages consisted of slices of different loans in one package. In this way, the bank essentially sold the debt to a third party, taking it off its books. The idea behind this financial derivative was based on the assumption that it was impossible for all those whose part of their loans were in the package to go bankrupt. Maybe some of it would go bankrupt, but never all of it at once, at least according to the mathematical formulas of its creators which ultimately proved to be wrong. Not paying off a part/portion of the loan would simply reduce the value at a certain point but not the whole package. The assessment of these producers and the degree of risk/risk to the investor was done by some government regulators and mainly by the private companies/rating agencies such as Standard n' Poor, Moody's and Fitch for which companies have pending legal investigations[50] from States for financial dealings with banks that issued CDOs in order to rate them as AAA. Since 1990 in particular, the stock market has been the main vehicle for raising capital and investment activities and for easy enrichment without the stress of the production process, being the main pillar for the movement of capital which has gradually been diverted away from the real economy. The financial institutions were operating with even greater freedom, especially after the Gramm-Leach-Bliley Act (1999), known as the Financial Services Modernisation Act, which introduced the abolition of differences between the commercial and the investment banks and also between the insurance and the brokerage companies. The increasing and opaque deregulation of the banking system from rules gradually led to the growth of a bubble due to the increase of these financial derivatives that led to the 2008 crisis. The continued demystification of state intervention in the functioning of the banking system by finance ministers aligned with the banking institutions deflated the instinct for easy enrichment and lead to the over-indebtedness of states.

[50] Krantz, M. (2013) *2008 crisis still hangs over credit-rating firms*. USA Today. 09/13/2013. Available at :https://eu.usatoday.com/story/money/business/2013/09/13/credit-rating-agencies-2008-financial-crisis-lehman/2759025/

- Efing, M. and Hau, H. (2013) *Corrupted credit ratings: Standard & Poor's lawsuit and the evidence.* Voxeu.org. 06/18/ 2013 .Available at :https://voxeu.org/article/corrupted-credit-ratings-standard-poor-s-lawsuit-and-evidence
- Council on Foreign Relations. (2015) *The Credit Rating Controversy*. 02/19/2015. Available at :https://www.cfr.org/backgrounder/credit-rating-controversy

The banks, for their part, created new credit derivatives through the modification of mortgage, business and consumer and non-consumer loans, gaining exorbitant profit from their sale thanks to the depersonalisation of transactions. The growth in the purchase and sale of securitised loans went beyond all limits, leading the banks to an incredible enrichment as they no longer had the risk of bailing out their customer as they had already sold their product or had already hedged it by gambling on an even riskier financial derivative. The central banks of the Countries worldwide, denationalised and mostly independent of state control, simply made recommendations and observations on the course of the banking transactions of these new derivatives. In 2007, for every dollar of world GDP there was $132 worth of derivatives[51]. The financial system without regulatory rules and restraint had overgrown. The role and the dividing line between commercial and investment banks and their various subsidiaries was no longer clear and bank deposits and savings were invested in these new derivatives that had extremely high profit but also risk margins. This opaque operation of the banking system was supported by the various national governments and public institutions, inviting citizens and pension funds to take part in this gambling game, taking a dangerous risk as it turned out that no one had any real information or understanding of these new investment products and certainly no one could guarantee the evolution of the course of these new financial derivatives. In the context of creating and supporting the sale of these derivatives, the banks provided loans with high interest rate excessively and uncontrollably for the purchase of houses and for any other purpose and at the same time the same banks were borrowing from the European Central Bank at a low interest rate, profiting with this way more due to the difference in interest rates.

The inability to repay the loans and the low credit rating of the borrowers was no longer a problem for the banks as they were relieved of this risk by directly securitising the loans into a new CDO. The credit risk of non-repayment would now be borne by the buyer of the derivatives, who because of the incomplete or deliberately misleading information and positive assessment of these derivatives, was impressed by this 'new miracle', believing and expecting a stable and perpetual profitability. The pooling of parts of different loans (Mortgages mainly, credit cards,

[51] Varoufakis, Y. (2011) *The Global Minotaur: America, Europe and the Future of the World Economy (Economic Controversies)*.Athens: Livanis Publications.

business loans, government loans and agencies reinforced the prospect that their repayment would not be largely or entirely stopped in a securitisation, thus creating a completely depersonalised derivative, which does not guarantee any kind of renegotiation between specific parties involved in a crisis or rational treatment as was the case in traditional lending with the bank's involvement in the lending process.

The creation of a secondary market for derivatives also supported the continuation of the process. The real economy received a part of the money circulation through loans for productive investments, but the overwhelming part of the credit was reinvested in securitisation and bonds because of the promise of a high rate of return without any entrepreneurial risk. This had a negative impact on countries whose economies had a negative balance of payments and a high degree of corruption and waste of new loans contracted to repay outstanding debts.

Argentina, for example, although it had productive resources in agricultural and a livestock production, after the rise in interest rates and due to mismanagement by governments led to the country's bankruptcy, with sad consequences for its people. Moreover, external borrowing is subject to changes and fluctuations of the dollar and to the fiscal stability policies of the Stability Pact and the Maastricht Treaty rules for the countries of the European Union. The inability to repay the loans of a large number of borrowers and the parallel fall in the prices of properties purchased with loans resulted in the biggest crisis in the financial sector and the real economy since the crash of 1929. The production of fictitious capital that had no impact on the real economy and the financialization[52] of economies led gradually in the 2008 crisis. According to the BIS (Bank of International Settlements) the value of all shares, mutual fund bonds, repos and other financial derivatives such as options, futures, swaps, junk bonds, CDO and CDOs amounted to $1,032 billion while the world GDP was only $62 billion[53].

These new financial derivatives offered higher yields without restrictions while banks continued to lend unsecured loans, mortgage, and consumer or business loans without any control to borrowers' credit ability that was unlikely to repay the loan. However,

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[52] Laskos, C., Tsakalotos, E. (2011). *No turning back. From Keynes to Thatcher: Capitalist crises, social needs, socialism.* Athens: ΚΨΜ Publications. pp 93-97.

[53] Tolios, Y. (2011) *Debt Crisis, International Law and exit policies*. Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.

this did not prevent banks from profiting from lending at high interest rates as they then subdivided the various loans into thousands of smaller segments and created packages (CDOs - Collateralized Debt Obligation), which they sold for a profit, taking the risk of repaying these loans off their balance sheet. Banking institutions were constantly borrowing to lend or buy CDOs even from other banks as the new financial derivative had become the number one profitable product. Breaking the already ineffective rules and without the restrictions of a regulatory framework, they used the citizens' deposits and savings for providing loans as the profit was higher than the interest paid to depositors. The compulsory reserve, already reduced to a minimum, was used for these new derivatives, which, because of the value they granted from institutional players and rating agencies, were now regarded as money and were even used as collateral for new lending to central banks.

Particularly in America, the birthplace of CDOs, the lending of subprime mortgages had gone beyond all limits. The low interest rates used by banks to attract borrowers resulted in higher property prices, the increased value of which served as collateral for private consumption lending. The banks then securitised the unsecured and all other kinds of heterogeneous loans into CDO packages and sold them on the market. The more unsecured was a package, the higher was the interest rate for the buyer. The CDOs were yet another way for the mainly private banking system to profit from poor citizens, whose fears and reluctance to borrow had been allayed by media and political propaganda.

The sense of risk had been weakened and both citizens and banking institutions were supplied with loans and CDOs and CDS respectively, which they would not be able to repay if something went wrong. As long as there was no saturation in the market, the fictitious debt machine worked perfectly well, everyone had the ability to borrow and the banks profited handsomely. Such was the frenzy of CDO’s that even banks started buying CDO's, of other banks because of their expectations of greater profit, and from that moment on the fictitious profit clock starts ticking down. The change in US policy, the deficits in the US economy and the reduction in the flow of capital to the real US economy and globally due to financial derivatives created problems in the economies, which gradually began to become apparent.

The various unsecured mortgages could not be repaid and already in mid-2008, more than 10% of them were in arrears and the auction process had already begun for a large part of them from the previous year, thus negative indicators began to appear in the market, the lending of banks by central banks and their lending to citizens and businesses gradually almost stopped. Speculative investors took these events as signs of a fall in the prices of the CDOs they held and rushed en masse to get rid of them by selling them or insuring them and alternatively betting on their non-repayment by investing in 'naked' CDS (An investor holds a CDS without owning the corresponding CDO). The banks stopped lending to each other, panic began to grip the citizens who rushed to withdraw their money from the banks due to lack of confidence, however the banks' coffers were full of CDOs which were now worthless due to lack of their demand, and all this resulted in the bankruptcy and collapse of the banks.

In addition to CDOs, which were overwhelmingly the main cause of the financial and banking crisis and led to the sovereign debt crisis and consequently to the recession of the global economy, another financial derivative further aggravated the global economy. The CDS, as was mentioned, were a risk insurance policies for the aforementioned CDOs mainly, which were mostly bought not only by the CDO buyer to secure his investment in case of impairment of part or all of the value of the CDO he held but also by other speculative investors who bet on the non-repayment of the CDO and the activation of the premium. In short, the holders of a risk insurance policy could be third parties who certainly wanted the CDS to be activated in order to make additional profit, and this would only be possible if someone else went bankrupt.

Larger insurer Companies such as AIG and other banking ventures, issued risk insurance policies on financial derivatives. The CDS[54] payout was triggered in the event of non-payment of financial derivatives such as CDOs. For example, CDS were issued for sovereign debt, such as that of Greece. The issuance of CDS allowed both new gambling on existing gambling and the expectation of profit by destroying other

[54] CFI. [n.d] *Credit Default Swap (CDS)* .Available at : https://corporatefinanceinstitute.com/resources/knowledge/finance/credit-default-swap-cds/

Bartram, S.M., Conrad, J., Lee, J. and Subrahmanyam, M.G.(2021) *Credit Default Swaps around the World* .Warwick. The Review of Financial Studies. Available at : http://wrap.warwick.ac.uk/151037/

holders of financial derivatives. As the global crisis was unfolding due to the collapse of the CDO market, the payment of a large part of the CDS was triggered as repayment of CDOs was impossible. However, it was also impossible to pay the CDS as there was no money available. This huge amount of fictitious money never existed. It was purely fictitious.

These two derivatives resulted in the bankruptcy of major banking groups such as Lehman Brothers, which had a large proportion of these toxic CDOS in its portfolio and now had no value, and insurance groups such as AIG, which had issued a huge volume of CDS having insured a huge volume of CDOs that now had to be repaid. In this context of the financial crisis, the neoliberal advocates of abolishing state regulation of the market and state intervention were quick to seek the help of the state to bail out their bankrupt banks. The political managers were quick to recapitalise the mainly private banking institutions that had suffered huge capital losses, with new state loans that resulted in increased debt leading to a new crisis, that of public debt[55]. The issuance of new bonds creates profit expectations for the financial sector and increases the wealth of a minority, while the lack of new money to businesses and households leads to their new borrowing and thus to the elimination of any future prospects for the real economy as a whole.

Despite the method of quantitative easing, inflation continued to exist and grow, as did the Public debt. The economic crisis has worsened with a direct impact on national societies. European States rushed to borrow from the European Union, but also to issue new money to save what could be saved from the financial and interbank system. The increase in state borrowing led to an increase in public debt which resulted in high interest rate borrowing, especially for the weak ones, which resulted in the collapse of their economies especially in the periphery of the European Union where this paper will focus.

Greece in the context of the Eurozone wasn't able to use the classical monetary and fiscal tools as the currency devaluation in order to fight the crisis. The country, due to the lack of the substantial help from the European Central Bank as the lender of the last resort especially many years after the outbreak of the crisis, plus the borrowing

[55] Galbraith, J.K.(2010*)* *The Great Crisis and the American Response*. Levy Economics Institute of Bard College. Public Policy Brief No. 112, 2010. Available at : :http://www.levyinstitute.org/publications/the-great-crisis-and-the-american-response

for the recapitalization of the Greek banks, remains in a free fall since 2008, which continues until today. The recourse to the IMF, with the consent of the European Commission and the promotion of the recourse by the Greek government, lead to the degradation of the remaining productive base, the capital flight abroad, the reduction of exports and the increase of imports.

The continuous austerity measures set by the IMF (as a condition for borrowing), aiming strict at the repayment of the existing overdue loans with privatizations and sale of state property at low prices, led to the free fall of the economy. The private banking system was restructured and after the recapitalisations it continued to lend the real economy at higher rates making a profit with the guarantees of the State.

The interconnectedness of the world's economies through the interbank system has resulted in the transfer of the financial derivatives' crisis to all the economies of the states. The end of the perpetual easy profitability came in 2008 with the collapse first of all of Lehman Brothers and AIG in America, which dragged down the other countries of the world that were connected through the buying and selling of these financial derivatives whose roots were in Wall Street and the City of London. Domestically the countries faced banking collapses and subsequent economic suffocation due to lack of funding, layoffs which resulted in reduced demand leading to a vicious cycle of recession. Externally, it resulted in a fall in exports, the inability to borrow from the state or at exorbitant interest rates, the invocation of the IMF and the application of strangling loan repayment measures leading to the debt crisis and its simultaneous increase, particularly in the countries of the periphery of the euro area.

Despite the earlier insistence on neoliberal views on the self-regulation of the market and the prohibition of state intervention and controls in the financial sector, at the time of the crisis, the calls for salvation have changed direction. Suddenly the need for a new type of Keynesian state intervention was heard with a united voice from former liberal economists, politicians and other factors of the banking system, with the media as a bulwark, who threw themselves into shaming the people and weak states as scapegoats, as culprits and spendthrifts, with a strong parallel catastrophism that in the event of non-capitalization of private banks, the country would be destroyed. In this context, national governments were called upon to rescue the banks either by nationalising them or mainly by recapitalising them with billions of Euros in the

European Union or billions of dollars in the USA and other countries. In this way there was no real punishment of the culprits, who were almost the entire banking and political system, but instead the state became the safety net for the banking system by borrowing at absurd interest rates from the international markets, from speculative hedge funds and the IMF, resulting in an increase in debt and deficit while at the same time taking unpopular austerity measures at the expense of taxpayers who were asked to take on responsibilities that were not theirs. The states proceeded to lend and recapitalise banks, also providing state guarantees for bank lending and buying up the toxic securities held by the banking system, thereby nationalising private debt.

4.8 The 2008 state and the Eurozone

The economic crisis of 2008, which was initiated from the US, made evident the structural problems of the Eurozone as well as the lack of ways to deal with crises, as it became obvious that the leadership of the European Union was unprepared in the face of the emergence and evolution of the crisis. The countries that have faced a severe problem have been mainly the countries of the euro zone, especially those on the periphery, which are the weakest link in terms of production, industry and trade in relation to the northern countries of the euro zone. The reason for this lies mainly in the Maastricht Treaty's setting of a range of exchange rates for countries that have adopted the euro as their currency and no longer have the possibility of using their monetary instruments such as devaluation and the issuance of money to deal with the crisis. It also applies to countries which do not have the same level of development and trade potential, nor do they share the same production potential and capabilities.

The above two reasons combined with irrational actions and rumour spreading by state government officials and European Union officials have enabled international speculators to attack weak countries by betting on bankruptcy or by lending at exorbitant interest rates leading to the downgrading of these countries even further. A similar negative role was played by private credit rating agencies, some of which have been accused of opaque operations and actions.

The European Central Bank, as the central bank of the euro area in particular, didn’t take protective measures at first helping the weak economies, which have been most affected by the crisis, as a lender of last resort, as is traditionally the role of central banks. However, the most important element that reveals the weakness of the

Eurozone and the European Union in general is the absence of a mechanism that works by recycling and redistributing resources and surpluses from the developed and powerful countries to the powerless and less developed countries, so that there is a convergence of economies. On the contrary, the weak countries become even weaker within a group of states where there are other stronger ones and especially in a period of crisis. When mismanagement by elected governments who then abrogate their electoral pledges is added to the above mix then the country will inevitably be driven to bankruptcy. This is the case of Greece, which we will examine further in more details.

The austerity policies pursued in Greece as in other countries after the onset of the crisis were as follows: Strict austerity measures, increased taxation, reduction of wages and pensions, reduction of social spending on health and education and other important sectors, privatization of state-owned companies and sale of public property at low prices.

The result, as will be proven more than a decade later, is the destruction of the economy and despite these sacrifices the public debt has increased instead of decreased and new sacrifices will inevitably be asked of the Greek people. The onset of the pandemic has also led the global economy into a recession, the results of which will be visible from 2022 onwards. The borrowing and the accumulation of debts in the liabilities of the Eurozone countries and especially the weak countries of southern Europe will affect and lead to macroeconomic difficulties negatively affecting the economic situation in the entire European Union from the inability to service the outstanding debts.

The European Central Bank tried to cope with the pandemic and the forced interruption of the production process by choosing to repay existing loans and provide guarantees to the banks instead of issue new money that would have led to substantial help to the market by stimulating demand and the productive empowerment of companies and thus supply.

On the contrary, this debt is a consumer rather than productive debt and is constantly increasing so that if it cannot service itself through yield it will lead to the inability to repay it and therefore to bankruptcy. The issuance of new bonds on the other hand creates profit expectations for the financial sector and increases the wealth of a minority, while the lack of new money for businesses and households leads to their new borrowing and thus to the elimination of any future bright prospects for the real economy as a whole. Despite the method of quantitative easing inflation continues to exist and increase as does the debt while issuing new money even if inflation were to increase would strengthen the real economy with the prospect of debt reduction due to production.

The pandemic, however, is not an ordinary phenomenon in economic history and should have been dealt with by innovative and radical solutions, yet the same method and the same recipe was followed in all cases. The result is a constant increase in debt. It is now becoming obvious that over-accumulation of debt will lead the already over-indebted countries to forced default and the only subway solution that is now apparent is none other than the cancellation of the comparative part of the debt.

What is certain is that there will be opposition to this prospect from the European Central Bank on the grounds that it undermines the euro, leads to inflation and to monetary instability, but already the increase in debt of the European countries leaves no other options.

5.0 The case of Greece - A History of Bankruptcies

Historically, the first recorded bankruptcies of states are the city-states members of the Athenian League, which could not repay the loans they had received from the allied fund of Delos and also during the Peloponnesian War in 431 BC with borrowing this time of the Spartans and their allies from the Oracle of Delphi and Olympia[56].

The modern history of Greece is intertwined with the so-called loans of independence and the Modern Greek state and its existence is closely linked to them as it is indebted from its foundation with the obligation from the outset to repay unsustainable debts for loans of which it received only a part or never received in some cases. The majority of the loans from the major powers are provided within the framework of their export credits to the borrowing countries. The prerequisites for the provision of these loans are the purchase of arms or the undertaking of infrastructure projects by the borrowing countries' companies and, of course, the repayment of interest on existing loans from foreign banks[57]. The country's economy diachronically follows the world economy and goes bankrupt when there is a financial crisis or crash worldwide. The bankruptcy of a weak financially state such as Greece is not an isolated event. It becomes particularly critical during periods of economic recession, when weak and troubled economies due to the lack of funding declare a default. Conversely, countries with a stable political situation and prudent fiscal and monetary policies manage to avoid default, as they have the political will, financial reserves and monetary tools to absorb the shocks, albeit with some losses.

Greece's first two bankruptcies would take place in the first half of the 19th century, in 1827 and 1843, while the third bankruptcy, with Charilaos Trikoupis as prime minister, would occur in the second half of the 19th century, in 1893. The third bankruptcy would follow during the inter-war period. In the 1980s - 1990s the country would reach the brink of bankruptcy but global growth prevented it as the country would follow the new developments of the European Union avoiding bankruptcy. The fourth bankruptcy will take place in 2007 and afterwards, following the outbreak of

[56] Sovereign defaults and debt restructurings, available at : https://journalistsresource.org/wp-content/uploads/2012/12/mit-press_sovereign-defaults-and-debt-restructurings.pdf(Accessed: 10 September 2021)

[57] On the long-standing role of export credits worldwide in the indebtedness of developing and poor countries: Hertz, N. (2005) *The Debt Threat: how Debt Is Destroying the Developing World*. Athens: Kritiki Publishing. pp.65 - 81

the global crisis and collapse of the financial and banking system worldwide. The detailed description of the bankruptcies will lead to an understanding of the country's chronological course in the context of the International Capital market, with obvious similarities throughout the two centuries since the establishment of the Modern Greek State. The history of the new state is closely linked to the history of its loans and debt, which will largely determine its domestic and foreign policy. The beginning of the Greek Revolution will create new needs in the newly established New Greek state, which cannot be covered by internal borrowing. External borrowing is inevitable. The hypothetical budget to be submitted to Astros at the Second National Assembly of 1823 is in deficit. The expenses of maintaining the army on land and sea, and the general government, cannot be met by the now reduced statutory or extraordinary taxes but also because of the ravages of the retreating Turks and the obstruction of trade. Internal loans were not paying off as there was no money in the market, but also the State bonds were not being absorbed because of the risk of a default. Mandatory and extraordinary taxes could not pay off in the long run. The sale of public properties could have brought some funds to the State Treasury, but the prospect of using them was for mortgage and guarantee for the future foreign loans made this solution impossible. The massive influx of refugees from war-torn areas was another issue that had to be resolved and needed financial resources. The successes of the Greek army generated expectations in foreign powers and their financial institutions and the offer of loans became active.

5.1 The loans of 'Independence' - The first bankruptcy of 1827

In this context two loans, the so-called "independence loans" were negotiated, the first in February 1824 and the second a year later in February 1825. The Greek embassy will go to London at Lord Byron's expense. The first loan with a nominal capital of £800,000 was repaid at 59% and therefore the amount issued was £472,000. The second loan with a nominal capital of £2 million was issued at 55% and therefore the amount disbursed was £1.100. 000. Therefore, out of the total of £2,800,000 of both loans, the Greek revolutionary government would receive £1,572,000, which would greatly support the operation of the state machinery and especially the military operations. Unfortunately, however, neither this sum reached the Greek Government in full. On the contrary, only 540,000 pounds reached Greece, while £1,032,000 was kept in England. This minimal part of the two loans ultimately, as it turned out, only caused problems, due to events such as the beginning of the Second Civil War, the squandering of the remaining amount and overcharging it with the nominal capital of the interest and loans of the potential future Greek state.

According to Professor Andreades, the amount of the £1,032,000 remained in England, and £ 683,000 of that money ended up on the London Stock Exchange. The amount represented the advance interest payment of 2 years of brokerage and bond redemption. The remaining £392,000, out of the sum of £1,032,000, was given for the purchase of steamships from England and two frigates from America, none of which reached Greek hands for the service of the war effort, the money having been embezzled and squandered by the English brokers who were responsible for the security of the loans. The continuation of the struggle and the devastation caused by the Turkish fleet and army, the lack of state resources and funding, plus the obligation to service the two loans, led the country to a tragic financial situation and the predicament of declaring in 1827 a default on the foreign loans in particular and led to the first bankruptcy. This event resulted in the exclusion of Greece from the international capital markets for the following decades as a punishment - retaliation.

5.2 The Kapodistrias period

Kapodistrias took over the administration of the country and tried to deal with the tragic - dire economic situation with a very prudent policy but the expenses were overwhelmingly more than the meagre revenues of a devastated country, which nevertheless with enthusiasm and patriotism continued the war despite the lack of resources, after the destruction by the Turkish - Egyptian troops and the piracy that ravaged the sea. Despite Kapodistrias` actions for a foreign loan, the actions fell through due to refusal of the financial markets because of the default of the 1827 payments. The newly established Greek state had military expenses and the situation in the country had not stabilized due to the issue of the coming of the new refugees from unredeemed areas and Crete. Here we must point out the new methods that Kapodistrias applied and minimized expenses and balanced the budget[58].

Equality in the payment of direct taxes with strict measures against tax evaders, severe penalties for state officials who commit offences, the creation of a stable

[58] Andreades, A.M. (2010) *National Loans and Greek Public Finance, Part A and B.* Athens: Dionysios Notis Karavia Bookshop Publications. p.26.

production environment for citizens, rationalisation of the public sector by increasing its productivity. Despite these good and rightful measures and Kapodistrias' excessive savings, the budget continued to be in deficit. The productive power of the country was minimal as national lands were pledged as collateral to lenders for the two Independence loans and therefore could not be distributed to be used productively. Kapodistrias tried to negotiate a loan of 60 million so that by coming to a compromise with the foreign powers on real debts; he could repay the debt in order to proceed with reforms. The attempt to strengthen the productive base by distributing national land to small farmers at a minimal price to increase the productive wealth of the country and increase production and consequently taxes, was opposed by the then ruling class's intention to privatize large tracts of land. Unfortunately, the politician who sacrificed even his personal property for the Country was assassinated. The anarchy that followed after his death and up to the reign of Otto contributed to the regression of the state's economy and increased the debt.

5.3 Otto's reign and the second bankruptcy in 1843

The assumption of the regency by Otto's reign, formally in 1833, ratified by the powers with the promise of a loan of 60 million, which was the unsuccessful pursuit of Kapodistrias as well, mainly for diplomatic reasons. The terms of the loan stipulated both the priority of repayment of the loan's interest payments over any other expenditure and the burdening of the diplomats of the great powers with the role of controlling the implementation of these terms. For the first time, the existence of an International Informal Debt Repayment Control Committee was recognised. Greece did not have a say in the terms or in the usage of the 60 million loan[59].

From the nominal capital of 64 million drachmas issued at 94%, Greece received 57 million drachmas and in a period of 10 years until the next bankruptcy, 33 million will be given for repayment of interest instalments, 7 million for brokerage, 12.5 million to Turkey and Russia for the purchase of south-eastern Greece and about 9 million was squandered for the needs of the Bavarian court of Otto and especially the Regency which ruled instead of the young King. Greece made little profit in relation to the amount of the loan. The Greek people had to endure excruciating poverty and austerity to repay the loans and the lack of growth prospects, because of the loans also

[59] Ibid. p. 46

negatively affected the functioning of the state to the extent of the disappearance of the welfare state and social spending. The pursuits and demands of foreign lenders, especially England, did not stop despite the country's unfavourable economic situation and occupied Piraeus (1847) by imposing financial control over the repayment of loan obligations. The second bankruptcy of 1843 would hermetically close the doors of the capital markets for Greece. The interest payments on the Independence loans, as well as the 60 million loan, would continue to be serviced and appear in the budgets whether already recognized or not by subsequent governments. Internal taxation during Otto's reign would remain broadly the same for the next two decades or so, contributing to the running of the state through its revenues, with no increase in debt since there was no possibility of external borrowing and internal borrowing was limited. The period towards the fall of Otto and afterwards was particularly turbulent politically, especially during the period of the Cretan revolution, and led to an increase in expenditure in various ways, resulting in a dire economic situation aggravated by the absence of a coordinated fiscal policy and other selfish political pursuits.

In this context, Greece would be unable to pay its loan debts and Otto's resistance to the aspirations of the great powers would give rise to the imposition of a British naval blockade of Piraeus and the main Greek ports initially and then the military occupation by British and French troops, on the occasion of the Crimean War (1854-1857), which will create the so-called ministry of occupation and will transfer and spread the cholera disease in the country resulting in the death of thousands of people. The difficult economic situation of Greece will deteriorate even more. Deficit budgets were now a common phenomenon. From 1870, loans in support of the Cretan Revolution would create new debt and then new loans would be contracted with bonds to repay mainly older loans, promissory notes guaranteed by the concession of customs and other revenues. In this decade, lacking the possibility of external borrowing, the Greek state will proceed to a partial issue of banknotes.

The different governments resorted to internal borrowing mainly from the National Bank of Greece but also from Ioniki Bank, which had the right to issue (paper money) through promissory notes and bonds at excessively high interest rates, creating continuous deficits. The absence of a prudent fiscal and monetary policy for more than three decades would be an obstacle to the productive development of the country, with a parallel increase in debt that contributed significantly to the third consecutive bankruptcy in 1893.

5.4 The H.Trikoupis period and the third bankruptcy of 1893. The establishment of the International Financial Commission

The global crisis made it even more difficult to repay the existing loan and actions to repay the previous one failed. The big powers agreed to impose a memorandum of austerity measures and cuts to pay off the loan, while installing their representatives in the ministries to enforce the measures. Some of the measures included layoffs of civil servants, a 1/3 cut in public sector wages, pension cuts, reduction of public investment and military spending, settlement of arbitrary homes with payment of a fixed amount, as well as settlement of pending cases[60]. The last decade before the bankruptcy of 1893 was characterized by external loans taken out under par and at an increased interest rate.

The compromise between the Greek government and the foreign bondholders of the Independence loans, and the recognition of these, allowed Greece to borrow again from the international capital markets. The war effort to conquer Thessaly and part of Epirus and to build infrastructure in accordance with the Treaty of Berlin led to the conclusion of two major foreign loans. The first loan, with a nominal value of 60 million at 6% interest, was negotiated below par and the final amount was 44 million and the effective interest rate was over 8%. The second loan, 120 million, had a nominal interest rate of 5%, but the final interest rate rose to 7% due to instalment payments and the final amount received by Greece was about 80 million. The repayment of the interest payments on the external loans and many internal loans of the previous period, as well as new internal loans, led to an increase in debt service that reached 49.5% of revenues in 1881[61].

During the H. Trikoupis period, the political situation was tense with accusations from the opposition (Deligiannis' party) of financial mismanagement and wastefulness while raising taxes and taking out harmful loans. However, tax increases on movable wealth have not been significant at all and generally revenues continue to

[60] Tsoulfidis, L. (2011) *The bankruptcies of the Greek state.* Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.

[61] Andreades, A.M. (2010) *National Loans and Greek Public Finance, Part A and B.* Athens: Dionysios Notis Karavia Bookshop Publications.pp 88-89

fall short of expenses as loan servicing increases. Already from 1882 onwards the financial situation of the country was deteriorating and bankruptcy seemed very likely. Trikoupis lost the 1885 election to Deligiannis, who reduced taxes in accordance with his campaign promises, and therefore the revenues fell in cash terms further and so the loan obligations became impossible to meet. The occupation of Eastern Rumelia by Bulgaria in 1885 lead to conscription and increased expenditure, which the new government tried to cover with an internal loan, but this prospect failed, as with any action to borrow from abroad. Trikoupis returned to power the following year and proceeded with new external loans in foreign currency to replace the internal ones which were in drachmas which led to an increase in debt. With the new large loan of 1887, amounting to 135 million under par, the state's revenues put up as a guarantee but also the ability of the lenders to veto and decide on their use and the monopolies, by creating a company that would be entrusted with this role in favour of the lenders.

This action meant the control of the Greek state by the creditors and the reduction of the sovereign rights of the Greek state. The actual amount of the loan with the French bank (Le Comptoir d'escompte) amounted to 91 million, which was used for the purchase of three battleships and for the settlement of earlier loans. The Trikoupis government also took out two more English loans in 1889, which were delivered under par at about 70% with interest of about 6%, which were also used to pay and settle the domestic loans of 1879 and 1887[62]. From 1890 onwards, external borrowing is again impossible and the Trikoupis government tries to cover deficits and overdue loan debts by internal bank borrowing and issuing bonds, but this is no longer easily achievable and certainly the terms are not satisfactory for the Greek state.

The next three years until bankruptcy will be politically turbulent with government shutdowns and resignations from the king and public finances in the worst possible state. The attempt to contract a loan with capitalisation of interest would fail leading Trikoupis to say in Parliament the famous phrase "Unfortunately Gentlemen, we are bankrupt" and declare bankruptcy. The government started negotiations with the lenders of the foreign loans, the repayment of the loans was stopped and the state revenues were returned to the Greek state. Internal loans remained in drachmas

[62] Andreades, A.M. (2010) *National Loans and Greek Public Finance, Part A and B.* Athens: Dionysios Notis Karavia Bookshop Publications. p. 161

without changes. The bankruptcy led many foreign bondholders, institutions and Greek Banks to lose profits .The Greek government proposed in the 1896 negotiations with the lenders a haircut (PSI) of 40% of the interest and capitalization of part of the interest and a return of a percentage of the revenues from the state monopolies according to the increase in revenues. However, the negotiations were broken off, as the lenders' demands were considered unachievable by the Greek government, based on the course of the economy, the trade and raisin crisis, the shortage of foreign exchange and the impossibility of obtaining a new loan for the repayment of the overdue obligations. According to the foreign press, Greece's proposals to the creditors were more favourable than the Turkish counterparts that reached an agreement, however, the creditors refused to compromise and grant a new loan, leading the negotiations with the Greek government to a halt.

The period after the bankruptcy of 1893 is distinguished by the premiership of Charilaos Trikoupis, who undertook development and infrastructure projects as well as restructuring of the state through loan financing. According to calculations, from 1879 until the bankruptcy of 1893, Greece borrowed 640 million francs, of which it received around 468 million, and only 6% is estimated to have been directed to productive investments, while the rest was used to repay older loans, recapitalize failing banks and part of the state's consumer spending[63]. According to Reinhart and Rogoff (2011) the public debt as a percentage of GDP had exceeded 220%[64]. In early 1897, Turkey declared war on Greece under the pretext of sending some irregular army corps to Macedonia. It is claimed that this decision was encouraged by the great powers, especially Germany, as a means of pressuring Greece to accept the conditions imposed by the great powers for the repayment of the debt. Given the lack of funds to mount a campaign, the Turkish army will reach to Lamia, close to Athens. The Greek government will request the assistance of foreign powers, which will rush in quickly and the war will end immediately.

Greece will accept all loan obligations in full, as well as the payment of £4,000,000 in reparations to Turkey, so as not to prejudice the repayment of the loans of the great powers. Another feature of the imposition of the Great Powers was the establishment

[63] Tsoulfidis, L. (2011) *The bankruptcies of the Greek state.* Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper.

[64] Reinhart, C.M and Rogoff, K.S.(2011) This Time Is Different : Eight Centuries of Financial Folly. New Jersey, United States: Princeton University Press

of the International Financial Commission[65], with representatives of Germany, France, England, Russia, Austria and Italy, in 1898, with the role of controlling all the public loans of Greece. The IFC was charged with controlling the revenues to repay the loans, took over the Government monopolies and the harbour-dues of the Piraeus and also set the monetary policy of the State. The IFC would remain in Greece formally after World War II (replaced by the Monetary Committee in 1946) and its final abolition would take place in 1977[66].

5.5 From the IFC to World War I

The period from Trikoupis' premiership to the Goudi movement (1909) is particularly important for the country as the urban class develops, urban centres grow in population, transport facilities improve with the creation of new roads and infrastructure, capital from abroad increases and the state protectionist policy increases, resulting in an increase in income[67].Of course, deficit state budgets, with already three bankruptcies, a political immaturity, a sterile partisanship and various economic misdeeds of the governments will continue after the end of the 19th century. Loans would continue and by 1914 they would be divided into different categories according to the reason for their conclusion. There are infrastructure loans, such as for the continuation of railway lines or new infrastructure, loans for the upgrading of the fleet and the land army, loans to solve the refugee question, the 110 million foreign loan under 84% par, to cover older loans and military operations against Turkey, and loans to cover the military operations of the Balkan wars[68].

Nevertheless, according to Professor Andreades, during the period 1898 - 1909, the public debt was reduced from 767 million to 757 million, thanks to the observance of basic fiscal rules and the implementation of strict austerity measures. In the midst of this effort to develop the Greek economy and its attempt to find its footing in the world economy, the turbulent political climate and sterile political confrontations and, of course, the constant war adventures would slow down the efforts of economic

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[65] Nationalarchives.gov.uk. (2012) International Financial Commission (Greece) - Available at :https://webarchive.nationalarchives.gov.uk/ukgwa/+/http://yourarchives.nationalarchives.gov.uk/index.php?title=International_Financial_Commission_%28Greece%29

[66] Tsoulfidis, L. (2009) Economic History of Greece, Thessaloniki, University of Macedonia Publications

[67] Chumanidis, L.Th. (1990*) Economic History of Greece, Volume 2*. Athens: Papazisis Publications. p.275

[68] Andreades, A.M. (2010) *National Loans and Greek Public Finance, Part A and B.* Athens: Dionysios Notis Karavia Bookshop Publications. p 392-415.

recovery, which was halted by the First World War. The beginning of the 20th century shows the process of alliances between European states, but also an intense belligerence manifested in military operations, which will culminate in the First World War. During this period (1900-1914) 11 governments took over, competing politically but having to deal with the Macedonian and Cretan issues and later the two Balkan wars. Greece would roughly be double in size with the annexation of territories after the Balkan wars. Greece's economic situation worsened due the cost of military operations, the refugee issue and the mismanagements of the budget. The unequal taxation was heavy and austerity measures were plaguing the country. The need to borrow was unavoidable and loan offers were commensurate with foreign policy and came from the country's prevailing mood of alliance. In general, budgets were in deficit and the drachma was becoming a hard currency linked to the franc. The country also joined the Latin Monetary Union. Borrowing from the Great Powers directly linked to the purchase of arms and munitions from the lending countries as this was a necessary condition for the conclusion of the loan.

Eleftherios Venizelos, after his victory in the elections of December 1910, took various measures to obtain loans and many diplomatic actions took place between Germany and France, both of which made the purchase of armaments from the latter a precondition, eventually lead to the predominance of the French side. The German side is supported by the successor Constantine. French loan funds to Greece exceeded 60% of the country's total loan funds and visibly influenced the Greek foreign policy[69].Most loans during this period were long-term loans, with a long repayment period under par.

- The 1902 loan of 56.25 million francs nominal capital, issued at 80%, and Greece received 45 million francs real capital at 5% real interest, repayable in 98 years.

- The 1907 loan with a nominal capital of FRF 20 million at an issue price of 91 %, an effective principal amount of FRF 18,2 million and an effective interest rate of 5,5 %, repayable in 36 years.

[69] Iliadakis, T.M. (2011) *External borrowing in the genesis and evolution of the New Greek State 1824 – 2009*. Athens: Batsioulas Publications

- The loan of 1911 with a nominal capital of 110 million francs at an issue price of 84%, and an effective principal of 92.4 million francs at an interest rate of 4.7% and repayment in 50 years.

And finally the loan of 1914 with a nominal capital of 335.074 million francs at an issue price of 87.75% and a nominal principal of 295.374 million francs at an effective interest rate of 5.7% and repayment in 50 years.

With continued borrowing, the public debt increased and budgets remained in deficit as new loans are taken out to repay older loans, mainly during the Trikoupis governments until 1910, but also to purchase war armaments. The country's dire economic situation had a negative impact on industry, agriculture, livestock and export trade. In this context, the country participated in World War I[70].

5.6 The interwar period. Eleftherios Venizelos and the fourth bankruptcy. (1914 - 1932)

The First World War was devastating for Europe, millions of lives would be lost, infrastructure destroyed and poverty would engulf the European continent. In this context, Greece will take part on the side of the Entente after the Venizelos' Party win over the pro-German Royalist faction. The unstable political situation will negatively affect the economic life of the country and, combined with its participation in World War I, the debt will highly increased. Budgets are in deficit, as is the balance of trade, and taxation is on an upward trend. The economic, social and political situation will deteriorate especially after the catastrophe of the Asia Minor campaign. Inflation, destruction of the productive base, curtailment of expenditure, the refugee issue and lack of proper political management and planning plagued the country up to the World War II.

Greece went in search of borrowing to meet its outstanding loan obligations and other needs, and most loans were contracted with France, Great Britain and the United States of America. The period 1915-1923 is characterized by heavy domestic borrowing, consisting of 26 loans with the National Bank being the main domestic lender. National neutrality during World War I until mid-1917 resulted in two secret German foreign loans, 80 million marks in total , with the informal condition of the

[70] Iliadakis, T.M. (2011) *External borrowing in the genesis and evolution of the New Greek State 1824 – 2009*. Athens: Batsioulas Publications . p .113.

country's non-participation in the war effort. During this same period only one other, Canadian small loan was listed in the foreign loans[71].

The drachma remained firmly pegged to the British pound until 1920, but then it begun to gradually decline, reaching ⅕ of its pre-war value in 1927, due to uncovered circulation with a corresponding increase in inflation .In order to cover its arrears to the Greek state, it was forced, due to the difficult situation it was in, to recognise old war loans in order to obtain loans from England, the USA and France. In order to settle its war debts Greece waived its own war credits to the amount of some 2 billion gold francs and recognized non-existent war debts[72].In the period 1924 - 1932, in order to meet the needs of the State, to deal with the major problem of refugees (after the Asia Minor disaster), to create and maintain existing state infrastructure and, above all, to cover overdue debts, Greece will proceed with the conclusion of 9 external loans. The country after the First World War, the Asia Minor disaster and its dire economic situation was forced to accept onerous conditions, sub-standard loans, very high interest rates as a condition for borrowing. The presence of Eleftherios Venizelos on the political scene resulted in the strengthening of British influence in Greek affairs from now on and the United Kingdom became the principal lender of most of the loans as well. In the period 1923-1932 the Greek state concluded 9 loans[73]:

- 1924: The first refugee loan, with a nominal capital of £10 million, at par, with an issue price of 83%, an effective interest rate of 8.6% and repayment in 40 years.
- 1925: The loan for the construction of a 350-kilometre railway network, with a nominal interest rate of $21 million, under par, issue price 92%, effective interest rate 8.69% and repayment in 6, 10 and 25 years.
- 1925: The loan for the construction of water supply works in Athens. The total amount was $11 million, at par, with an issue price of 85%, an effective interest rate of 9.4 and repayment in 27 years.
- 1926: The next loan was for the purpose of covering deficits and foreign exchange needs with a nominal capital of 1,000,000 pounds sterling at par,

[71] Ibid , pages 139-141
[72] Iliadakis, T.M. (2011) *External borrowing in the genesis and evolution of the New Greek State 1824 – 2009*. Athens: Batsioulas Publications p.162
[73] Ibid .pages 170 - 185

with an issue price of 94%, an effective interest rate of 9.04% and repayment in 28 years

- 1928: The Greek government raised another loan of £4,070,960 at par, with an issue price of 86%, an effective interest rate of 7.14% and repayment in 40 years. The purpose of this specific loan was to cover further needs of the refugee issue.

In the same year, the Greek Government raised a loan for the maintenance and extension of the road network. The loan had a nominal principal amount of £ 4.000.000 at par, with an effective issue price of 84 %, an effective interest rate of 7, 14 % and repayment in 40 years. The next three loans were raised on a yearly basis: In 1929, with the agreement of war credits and recognition of debt by the Greek Government, Greece received a loan from the United States of nominal principal of $12,167,000 at an interest rate of 4% and repayment in 40 years.

The following year, a loan of £1,000,000 at par, with an issue price of 84%, an effective interest rate of 7.14% and repayment in 24 years, was contracted for the construction of school infrastructure.

Another loan was raised by the Greek Government in 1931, for a nominal capital of £4,600,000 at par, with an issue price of 83.5%, an effective interest rate of 7.18% and repayment in 37.5 years. The reason for concluding it was to continue productive projects, support the Agricultural Bank of Greece and repay advances on bank loans and other purposes. During this period, the International Financial Commission asked the Greek Government to proceed with reforms and the creation or upgrading of the existing infrastructure, as well as making the creation of the Bank of Greece a condition of its lending. The global recession that started in the US after the Great Crash of October 1929 begun to gradually spread to other countries due of the interconnectedness of the financial and interbank system. Venizelos tried to cope with the new developments, by clinging to the connection of the drachma with the dollar, keeping the stock market open to avoid negative impressions and by providing various credits to brokers. In addition, the National Bank of Greece was buying securities in order to contain the price fall that two years later exceeded 46%.

Greece now faced the possibility of bankruptcy compounded by the global recession and making it almost impossible to raise new loans. The political factions were consumed in a struggle of impressions and pointless - interest-based bickering, with Venizelos seeking to form a coalition government and to refuse to pay the debt and with Chaldaris on the other hand to propose a government of technocrats[74]. In this difficult situation, Venizelos appealed to the League of Nations in 1931 to request a new loan and a five-year moratorium on interest payments, which wasn't granted. This problematic political situation resulted in April 1932 in the indefinite declaration of a suspension of payments by the Venizelos government with a series of legislative measures, such as the suspension of the convertibility of the drachma and at the same time it was decided its devaluation, the abolition of the foreign exchange market, the conversion of debts and foreign currency into drachmas, an increase in customs duties and the imposition of quotas on imports for the adoption of a clearing trade[75].

These measures that were taken after the fourth bankruptcy also resulted in a reduction of imports due to quotas and the maintenance of the exchange rate, an increase in domestic production and a strengthening of the corresponding mainly agricultural exports. Also, the Bank of Greece (BoG) was strengthened and assumed a primary role in monetary policy vis-à-vis the commercial banks which profited from the possible - apparent devaluation of the drachma by purchasing foreign debt during the turbulent period towards bankruptcy. The BoG now controlled the money supply, the foreign exchange and the interest rates and finally the monetary policy was reorganised in a new base. In this context, the default has resulted in an effort to stimulate the productive base by providing loans, the continuation or launch of infrastructure projects and the increase of the social benefits that have stimulated supply and demand.

Nevertheless, the political situation was erratic, with intense fanaticism and competition between the Venizelos faction and the People's Party, which resulted in the establishment of the Plastiras dictatorship, under the pretext of the dire economic situation and the communist danger. The country's dire economic situation, with heavy taxation and political fanaticism, lead to strikes and social unrest and the intervention of the rural police and the army, which played a decisive role after the

[74] Chumanidis, L.Th. (1990*) Economic History of Greece, Volume 2*. Athens: Papazisis Publications. pp 311-314.
[75] Tsoulfidis, L. (2011) *The bankruptcies of the Greek state.* Historical archive: Loans - Crises - Bankruptcies. The economic history of the 19th and 20th century. Ependintis Newspaper. pp 44-45.

bankruptcy of 1932. During this period new military movements emerged, King George II returned to the country and also Ioannis Metaxas took power, who imposed a military dictatorship in 1936. Three years later World War II began.

5.7 Metaxas' dictatorship and World War II

The period of Metaxas' dictatorship had the political characteristics of any imposed authoritarian regime as intense policing, deprivation of freedoms and imprisonment of dissidents, communist or not. The Metaxas regime, besides the Military, had the support of important public figures, industrial capital and high-ranking figures in the banking system who assumed state positions in the government. The Metaxas economic policy aimed to implement a broader social welfare program, supporting the weaker economic strata of society. The state socialist model that was implemented focused on empowering the peasant and the worker by creating cooperatives, and above all wrote off arrears and regulated the repayment of capital by peasants to private lenders. This policy was followed by land distribution to landless people and various infrastructure projects to support agricultural production which was increased to such an extent that it was used for export under the clearing agreement mainly with Germany with corresponding import of machinery.

The economic situation of the country was in a difficult situation due to the global recession after the 1929 crash. Finding external borrowing was impossible and the oppositions of the Great powers created a climate of confrontation, rivalries and claims. In the context of the default, while the cash reserves were improved, the exports and particularly of raisins and tobacco, which have brought in foreign currency, had fall. The regime steadily increased military spending on the procurement of military equipment for defensive reasons to ensure peace and not expansionism in accordance with its internal foreign policy. Military expenditure in the state budget increased by 65% and in the period 1936-1939 amounted to 4.4 billion drachmas, although it was largely covered by the clearing. Germany also became the largest importer of the country's two main export products, raisins and tobacco (indicatively in 1937 it imported 40% of both products). Despite the close economic trade cooperation between Germany and Greece, Metaxas was politically inclined mainly towards England, and in a speech in October 1936 he seemed to have predicted World War II, emphasizing his firm position towards England if neutrality was not possible[76].

Almost three years later, the world political scene changed completely and the new alliances took up battle positions, World War II begun and Greece, without any commitment for military aid from the Great powers, joined the fight against the German-Italian axis. A characteristic fact was the refusal of the Metaxas regime (1936) to repay the loan to the Belgian bank *"Societe Commercialle de Belgique"*, arguing for the preservation of the rule of law - welfare state, citing a State of Emergency and the Calvo doctrine.

5.8 The end of the Second World War and the road to the dictatorship of the Colonels

World War II had resulted in the destruction of the country's productive structures and famine leading to the death of millions of people. Greece was the most devastated country in Europe. The occupation by the Nazis, the devaluation of the drachma and the hyperinflation led to the destruction of the country’s infrastructure and had as a result the starvation, disease and the death of hundreds of thousands of Greeks. After the end of World War II, the country will roll into a bloody civil war with England as instigator from one side and with the connivance of the Soviet Union on the other, determining both the foreign and domestic policy of the state by intervening and using military force against the communists and the anti-communist post-civil war legislation.

The formal end of the civil war in 1944 found the country even more destroyed but also divided ideologically and politically for the next decades under the surveillance of the USA and its new global policies, which took over the management of the south-eastern Mediterranean and Greece from now on. The Truman doctrine determined the internal and external political fate of the country with continuous political confrontations between the parties of the left and the Communist Party of Greece, the centre and the right. From 1936 to 1952 the country experienced 24 short-lived governments, indicative result of the complete disorganization of the country.

[76] Plumbidis, G.S. (2016) *The regime of Ioannis Metaxas (1936 - 1941)*.Athens : Publications Estia. pp 39 - 41

Economically and fiscally the country was also ruined. The forced occupation loan[77] imposed by the Nazis and Italian fascist forces was a burden on an already damaged economy which, after the end of the Second World War, received, as reparations, less than 2 % of the reparations it had claimed. Claiming war reparations was impossible in a turbulent political context of governments that change every six months. Three devaluations followed, which annihilated much of the external borrowing by pegging the drachma to the British pound. The trade balance was in deficit, as were government budgets which were covered by the continued issuance of new money leading to hyperinflation. The black market and wealth concentration by private interests created a new economic oligarchy which speculated with loans, foreign exchange, devaluations of the drachma and was accused of complicity with the enemy by Alexander Diomedes, Founder and first Governor of the Bank of Greece.

The country's loans come from internal borrowing due to a lack of external capital supply, but also from UNRA's assistance in both financial and commodity terms. UNRA's aid was replaced by the Marshall Plan (officially the European Recovery Program, ERP) , which was the blueprint for creating a European market for the American trade policy. From the 13.4 billion dollars of the Marshall Plan, Greece received 7.1% which covered the budget deficit, the creation of infrastructure, a large part of the civil war operations and in general the military expenditures of the State. The Marshall Plan, like previous UNRA inter-party aid, was subjected to waste and mismanagement. During this period, as thereafter, an American mission (the so-called AMAG) would be allowed to take over the financial management of the country and the aid packages, as well as Greece's domestic and foreign policy. By 1953, the Greek drachma underwent 8 devaluations and raised only three foreign loans in foreign currency. The first was a 10 million pound loan in 1946, with zero interest, a 15-year loan with a five-year grace period (to stabilize the drachma). The second of $25 million, from the Export-Import Bank of Washington, 2.5/3.5%

[77] The forced loan imposed by the Nazi and fascist powers during the World War II. The terms of the occupation expenses loan and the additional necessary funds were forced to Greece by the Rome Agreement (14/3 1942) between Germany and Italy. The amount amounted to 1,500,000 drachmas and was paid monthly to the Occupation troops. According to Professor Angelos Angelopoulos, as reported by Liargovas – Repoussi (P. 102) the total amount of the forced loan amounts to a total of 45,000,000,000 gold pounds, with a relative valuation in 1995 and an interest rate of 3%, amounting to 13,000,000,000 dollars. The Article 4 of the agreement stipulated that the loan was to be repaid in the future, but in the end, even after the end of the war in 1952 and the reunification of Germany, the loan has still not been repaid.

Only war reparations or reparations of 115,000,000 Deutschmarks were given, but they differed from the forced loan as while the reparations were awarded because of the total destruction caused by the Nazi occupation forces to the entire countries, the loan was a forced act of borrowing through a loan agreement between only two parties, Germany and Greece.

interest, 30-year, with a five-year grace period (for the purchase of American service products) and the third, 1946-1948, of 80 million, again from the US government,

25-year, with annual instalments for the purchase of US military equipment[78]. This period would continue with trade deficits covered by US aid and also by mainly foreign borrowing. The country was slowly restoring some of its infrastructure, yet the economy was in dire straits as US aid had begun to decline and the external borrowing was becoming necessary. In this context, 16 short-lived governments rotated in power. In 1953 Markezinis devaluation and the preferential treatment of foreign capital didn't have the expected results and the burden of these measures fall again on the poorer sections of Greek society. Investment by domestic and foreign capital was encouraged by the Markezinis measures and was boosted in small industrial units, but the repatriation of profits and favourable taxation offset any benefits to the country.

Although exports increased after the country's association with the EEC (1961), accession to the European market and the inflow of foreign investment capital, the balance of payments nevertheless remained in deficit. The period up to the dictatorship of the colonels was characterised by strong military spending, which took up a large part of revenues. The tax system remains at the expense of the weaker strata with large tax exemptions for the upper classes, the public sector was expanding and immigration was increasing, but this has resulted in an increase in the undeclared resources of the budget. In this period , which includes three governments with the Karamanlis period there was an increase in the construction sector due to the 3741/29 law of rent control and a decrease in productive investment with increases in military spending in order to reduce inflation.

Most of the wealth was concentrated in the hands of a small upper class and most of the population was living in poverty. The welfare state was almost non-existent in the periphery, resulting in the movement of the population to the urban centres. Agriculture, although the country was predominantly rural and despite the increase in production did not bring sufficient income to the farmers so to help decentralization,

[78] Iliadakis, T.M. (2011) *External borrowing in the genesis and evolution of the New Greek State 1824 – 2009*. Athens: Batsioulas Publications.pp 244-245.

and the agricultural household debts due to the lack of proper agricultural policies, were increasing. The public debt according to the Bank of Greece arose from 4.4% (4035 billion drachmas) of GDP in 1957 to 6.9% of GDP 10 years later. In addition to this, 4.3 billion drachmas was added to the debt after the settlement of the foreign war debt, so that the total public debt reached 38.783 billion drachmas in 1966. Within these 13 years, the external debt was settled and amounted to 6.41 billion drachmas including interest. From 1955 onwards, 28 foreign loans were contracted by the short-lived governments, totalling 406.4 million dollars. Most of 3/5 of the loans were raised with the USA (EXIM, Morgan Co, etc), 1/5 of the loans with West Germany, , 1/6 with England and the rest from other international organizations[79]. The pre-war debts continued to be a destructive burden on the Greek economy which was unable to recover under the burden of repaying them. Actions and proposals made by eminent economists with institutional positions such as Xenophon Zolotas and Angelos Angelopoulos for the cancellation of the remaining debt as a minimum tribute from the allies for Greece’s participation in the war and the total destruction it suffered. In vain, however, the country was vilified by the great powers who were interested in the continuation of the debt repayment, which was constantly increasing due to the destruction of the country's infrastructure and the apparent benefits to Greece from the Marshall Plan tranches. In this unfavourable context for the country, the government of Georgios Papandreou, with K. Mitsotakis as finance minister, bypassing the above fair demands, will recognize in July 1964 the pre-war loans from 1881, despite the two bankruptcies that intervened in 1893 and 1932, by providing new bonds of twice the value and increasing the interest rate. Repayment was scheduled to take place in 42 to 45 years, i.e. 2006 and 2009[80].

5.9 The Seven Years of the Junta

The turbulent political period after 1965 due to the inability of the political system to form a government mainly due to the palace's opposition lead to the dictatorship of the Colonels with the support of foreign powers in the context of the Cold War. The strong anti-communist rhetoric and the arrests, convictions and exile of dissidents increased after the junta took power. The country ‘was put on a orthopedic plaster cast to be cured’ under Dictator Georgios Papadopoulos who assumed the role of the

[79] Iliadakis T.M. p.228, 244 -251.

[80] Kazakis, D. (2011) *The Greek Pompeii: The chronicle of a foretold bankruptcy*. Athens: Pontiki publications. pp.82 - 83

"medical doctor"[81] and in the next seven years the dictators pursued various measures and programs which, however, were quite similar to the previous period and lead to a certain extent to the development of living standards compared to the previous decade. The Junta benefited the foreign and domestic capital ,industrial or maritime, with tax breaks, subsidies and exemptions whose consent was very useful; The same policy continued with the promotion of infrastructure projects and the strengthening of the construction industry and also with the development of the tourism industry through subsidies and loans. The result of the above had been an increase in national income and subsequently demand due mainly to the construction sector. Inflation had begun to rise and the country after the abolition of Breton Woods Agreement in 1971 (peg to the dollar) and the oil crisis in 1973 faced the devaluation of the drachma and a stagnant inflation. Greece's inflation was the lowest of all the OASA countries in 1971 while it will be the highest one in 1974.

The credit policy of the junta led to an artificial economic growth resulting in an increase in public debt which temporarily benefited the national income. The obvious benefited was the imported foreign capital which rushed to invest having the assurances of the Junta and the implementation of the law 2687/53 with its tax incentives and privileges. The foreign investments were mainly from the USA but also from the EEC countries such as France. Despite any growth in the industrial and craft sector, exports were lagging behind imports which were constantly increasing. Also in the agricultural sector, apart from the cancellation of 7 billion drachmas of debts, the lack of a long term plan and understanding of real needs resulted in a decline in farm income and internal migration, as foreign migration had been curtailed by measures taken by the EEC after the 1971 and 1973 crisis.

The measures promoted by the dictatorship of the Colonels were mainly based on internal borrowing (Bank of Greece, Postal Savings Bank) amounting to (from the Bank of Greece, the Central Bank, the issue of bonds, interest-bearing securities) drachmas and external loans (for infrastructure projects, economic development projects) amounting to 7,428,846,000 drachmas and foreign currency loans (Private investors, National Land Bank, Bank of Greece, National Bank of Greece; the three state banks) from the construction companies undertaking these projects, which

[81] Greek junta. (2021) *Quotes* .Wikipedia. Available at :https://en.wikipedia.org/wiki/Greek_junta

borrowed for the Greek State and amounted to 2.8 billion drachmas[82]. The total nominal debt for the period 1967-1974 amounted to 113 billion Drachmas.

5.10 The Regime change period. The government of Konstantinos Karamanlis (1974-1981) - (Post-independence 1974-1989)

The fall of the junta would inaugurate the so-called period of the Regime change period. In the context of the global economic crisis, the balance of power changed worldwide and the influence of the United States was weakened. The country was moving towards membership of the European Community. Konstantinos Karamanlis was the first prime minister of the Regime change period. The constitution was a presidential democracy, the old post-civil war passions seemed to be fading, and the rise of the centre-left was evident at home. In foreign policy, the country was reeling after the Cyprus tragedy and the challenge to the EEC and NATO in particular was becoming increasingly strong. Nevertheless, Konstantinos Karamanlis signed the country's EEC membership treaty in May 1979, gradually aligning the country with the acquis communautaire. Public deficits persist and GDP showed a decline compared to the previous (fictitious) growth of seven years. Military expenditure kept increasing due to the tense period, as was the balance of payments deficits.

Imports after the country's accession to the European market were increasing, thus making the trade balance in deficit. Remittances from abroad by migrants and maritime workers were not sufficient to increase the current account balance. Greece was experiencing low growth rates, affected by the oil crises and the increase in raw materials, the hence prices, the rise in interest rates and the decline in investment, and the rising unemployment. With regard to public debt, the pre-war debt had been steadily decreasing and was eliminated in 1981, while the post-war debt had been increasing The external debt was on the rise as 24 loans, in a foreign currency and drachma, were contracted between Greece and foreign creditors within the period 1975 -1981[83].

10 loans in dollars ---------396.033.000

3 in French francs ---------------75 million

[82] Iliadakis T.M , External borrowing in the genesis and evolution of the New Greek State 1824 - 2009, Batsioulas Publications, pp. 318 - 321.
[83] Ibid, pp. 354 - 355.

2 in German marks -------------30 million

2 in Swiss francs -------------287.925.472

5 in units of account (UAC) ---------- 88,000,000

1 in Austrian schilling (AS) -------------------- 190,000,000

1 in drachma ------------------ 900,000,000

The purposes of the loans vary; some were to support development projects, infrastructure and educational programs and others assisted the agricultural production and purchase (services and goods) of consumer goods. Most of the loans had an interest rate of 7 - 9.5% with a repayment range of 5 - 20 years in addition to these; there were internal loans from the Bank of Greece to repay older loans. There was also the conclusion of 17 loans.

In foreign currency:

8 loans amounting to DEM 578 900 000

8 loans of USD 2 160 million

1 loan of 20.000.0000 Swiss francs

5.11 The government of Andreas Papandreou (1981-1989)

Greece's accession to the EEC created new conditions for the Greek economy, which had to align itself with new principles and rules. There was no longer any possibility of protectionism in the Greek market, the pace of change was different, and the market was liberalized to strengthen trade by eliminating tariffs and quotas on imports. It was within this framework that Andreas Papandreou won the elections, citing the much-needed *'Change'*. In the following years, the intense partisanship of political life would intensify, with frequent confrontations and judicial indictments of Prime Minister Andreas Papandreou and party members for wiretapping scandals.

In foreign policy, the questioning of the Greek rights of the Aegean Sea by Turkey led one step before a military conflict. The Greece's foreign policy was also aligned with the European community by claiming support programs. Imports from the European Community continued to increase relative to exports and the trade balance continued to be in deficit. The 1983 devaluation of the drachma didn't have any significant impact.

Greece had the right to claim financial support through the EEC, yet it was receiving part of them, as its infrastructure was inadequate. The country's GDP, from 1980 and for the next four years, declined and the inflation was doubled compared to the previous period. Unemployment was rising and the solution was to absorb it from the public sector with an intensive recruitment process and its expansion. The tax system was anachronistic or unenforced, resulting in tax evasion and a widening public deficit that reinforces the informal economy. The tertiary sector was strengthened, as the primary and secondary sectors were left aside without any planning, while the country was entering a period of adjustment to the fierce competition from the countries of the European Community without any protective period of adjustment. In this context, in the last decade, the country had been spending heavily on military expenditure, relying on its defensive strength, especially against Turkey.

In addition, the agricultural sector from 1981 to 1988 received the greatest share of the EU financial support, about 72% of the one trillion euro given to Greece. In 1987 the percentage of taxpaying farmers constituted 1.8% of all taxpayers[84]. Within this framework, the state proceeded with favourable loans and exemptions for significant enterprises, many of which will be nationalized as problematic through the Enterprise Reconstruction Agency (Law 1386/1983). Many of them were resold or started again by their owners through the provision of loans. This indirect and direct financing of the Greek industry through European funds and financial packages did not bring about the development of industry as there was no intention of self-financing and upgrading from the industrial capital and its upper class.

From 1984 onwards the European community promoted support for the weaker member countries through the so-called Mediterranean Integrated Programmes which were designed to promote structural changes so that the less developed countries could improve their infrastructure and productivity to cope with the common European market. This objective was to be achieved through the creation of fixed capital, upgrading of human resources, mainly in agriculture, fisheries, crafts, industry, tourism and other sectors. However, the lack of management and control of

[84] Iliadakis T.M , External borrowing in the genesis and evolution of the New Greek State 1824 - 2009, Batsioulas Publications.pp. 376 - 385.

the results of these programmes, combined with the Clientelism of the parties and the mismanagement and waste of capital outside the productivity of these programmes, had no substantial effect on the country's economy, but only strong inflationary pressures, increased unemployment and a destructive deterioration of the country's productivity. Foreign investments were mainly from EU investors and while subsidised by the programmes, they did not invest in upgrading their enterprises to increase the productivity, and combined with the law 2687/1953, which was clearly favourable to the foreign capital, the effects in the Greek economy from these investments were minimal. Another negative feature was the reduction in undisclosed resources which exacerbated the deficit. State borrowing increased again in this otherwise robust period in the importation of community funds, and ironically, it proportionally exceeded any precedent, as T. Iliadakis noted in his book "External borrowing in the genesis and evolution of the Greek state 1824 - 2009".

In the period 1982-1989, 57 loans with a nominal capital of 101.79 billion drachmas were contracted, of which 54 from the European Investment Bank (EIB), and the rest from the EEC and a large group of banks. In addition, from 1975 to 1987, several loans with a nominal capital of USD 18, 4 billion were made, of which 80, 6 % was given to service previous loans. Public debt service in the same period (1982 -1989) increased dramatically over the previous seven years, with an annual average nearly threefold, from 11.80% of regular revenues to 33.61%. The irony is that the 1989 election period was marked by Papandreou's famous phrase " Tsovola, give it all" meaning the massive provision of benefits for citizens as an election campaign promise using an extremely popular rhetoric with more political election slogans such as "EU and NATO are the same syndicate".

The public debt from 1979 to 1991 showed a continuous upward trend, from 398.2 billion drachmas in 1979 to 4,302,400 billion drachmas in 1986 and arose to 12,653.5 billion drachmas in 1991. This increase was caused mainly due to the increase in the debt of public institutions (social security and welfare) which reached 6.5% of GDP as well as that of public enterprises which reached 15.2% of GDP. The public debt of enterprises and public institutions from 1979 to 1991 was double, from 8.4 to 13.5% of GDP and from 1.4 to 2.9% of GDP respectively. A particularly significant increase in central government debt occurs in the period 1989-1991, from 73.1 to 85.2% of total debt. In the period 1979-1991 the borrowing was from the domestic market with loans mainly from the central bank, government bills, government bonds in drachmas or dollars and government bonds in drachmas[85] .The external debt in drachmas in the period 1979 -1991 increased from 5.5% to 24.4 of GDP mainly in the period 1982-1985, where it increased by an average of 63.56%, but then it declined again against internal borrowing. Public debt service expenditure in drachmas in the period 1975-1990 increased from 2.9% to 21.7% of GDP, and in this period the deficit of the wider public sector was increase from 6.5% in 1979 to 19% in 1985 and finally to 25% of GDP in 1991[86]. The unofficial record of the underground economy showed an increasing trend from 22.76% in 1970 to 31.62% of GDP in 1988. Indirect taxes remained broadly at the same increased levels with 11.5% in 1960, 14.5% in 1970, 13.4% in 1980 and 18% as a percentage of GDP in 1991. In contrast, direct taxes remained declining relative to indirect taxes until 1991, at 3% in 1960, to 3.5% in 1970, to 5.5% in 1980 and 6.3% in 1991[87]

5.12 The government of Konstantinos Mitsotakis (1990 - 1993)

The fall of communism and the transition to the open Market mainly in the Balkans but also worldwide created new conditions for the Greek economy. The new countries which were created through war turmoil and operations found themselves in a long transition period, with Greece being called upon to play the most important role in the Balkans by becoming a member of the European Union and NATO. Greek domestic politics was distinguished by the economic governments and political turmoil and conflicts of the period, the fall of the Mitsotakis government, spearheaded by the Macedonian issue which was a major problem in Greece's relations with the then state of Skopje as it was called by the Greek Media and with the Balkan alliances in general. Domestically, the government of the New Democracy of Konstantinos Mitsotakis during the first three years tried to make structural changes such as privatization, reduction of the public sector and sale of public property. Eventually, due to strong protests and internal contradictions, the programme suspended. The European Commission through its President Jacques Delors sounded the alarm for the Greek economy. However, the message was not received despite the negative results of the budgets and the trade deficit. Inflation continued to be high and the

[85] Vavouras, I.S. (1993) *Public Debt - Theory and Greek Experience*. Athens: Papazisis Publications. pp. 70-78.

[86] ibid, pp. 70-72.

[87] Ibid, pp.144 - 145.

underground economy was on the rise. Military spending was increasing as a percentage of GDP, under the informal excuse of strained relations with the Balkan neighbours in the north part of Macedonia. That period was essentially following the same pattern as the previous ones.

The declining economy left no room for foreign investment, the growth rate gradually fell in the first three years and the 1993 deficit, according to the Ministry of Economy, reached the one trillion drachmas. Direct taxation was low while revenues came mainly from indirect taxation. The OASA pointed out in a 1991 report that the Greek economy had become 'a dependent economy' on the Community resources and funds it was receiving. According to T. Iliadakis, the Mitsotakis government of the first three years received the public debt at 66.32% of GDP and delivered it at 102.83% of GDP to the next elected government. The Public debt service was tripled in the same period and went from 13.6% of GDP in 198 to 36.4% of GDP in 1993.This increase in public debt in such a short period of time was a record compared to previous periods and if the debt was not 85% in drachmas Greece would probably have been bankrupt by then[88].

The coalition government of Tzanetakis in the approximately ten months of governance proceeded with the conclusion of six loans with the European Investment Bank (EIB), in different currencies and with high interest rates, with a nominal capital of 12,016,800,000 billion drachmas (Mainly for the construction and repair of the road network). The Mitsotakis government's external loans amounted to 22, with the European Investment Bank (EIB) as a creditor, half in drachmas and the rest in ECU, totalling 129,173,444,199.8 billion drachmas, for road construction and development of the railway network and other infrastructure projects, repayment from 3.5 to 20 years and interest rates from 5 to 10%[89].

5.13 The Entry into EMU and the period 1994-2000

An important and particularly pivotal point for the Greek economy was the signing by Greece of the Maastricht Treaty of 1992, which established the stages of the creation of the Economic and Monetary Union (EMU). A state wishing to join EMU and adopt the new currency must follow a specific macroeconomic and monetary

[88] Kazakis, D. (2011) The Greek Pompeii: The chronicle of a foretold bankruptcy. Athens: Pontiki publications.p.216
[89] Iliadakis, T.M. (2011) External borrowing in the genesis and evolution of the New Greek State 1824 – 2009. Athens: Batsioulas Publications. pp. 420 - 421.

policy. The Treaty established the convergence programme of the economies concerned at a common level with a public deficit not exceeding 3% of GDP, a public debt not exceeding 60% of GDP, and inflation not exceeding 2%. Under these new conditions, Greek governments lost the possibility of devaluation as a deflationary instrument or as a support for domestic exports, as well as the possibility of adjusting interest rates. Also, public spending as a percentage of GDP was reduced, taxation was expanded, trade was liberalized and protectionist measures of the domestic market and production were abolished, and the issuance of currency was granted. The so-called Stability Pact was the guide and controller of the gradual convergence of all fiscal policies towards the 3% of public deficits. In the first few years, the limits set have not been respected neither by the two largest economies of the European Union, such as Germany and France, and that was an ominous sign for the course of weak countries, especially in the periphery, such as Greece, which had a public debt issue from the outset. The drachma was becoming a hard currency in order for the economy to achieve convergence and the objective of the Stability Pact, but as consequence the exports reduced and the trade balance and public deficit steadily increased.

The signing of the Maastricht Treaty and achievement of the convergence criteria determined the further course of the Greek economy. The new government elected at the end of 1993 consumed by internal bickering and there were virtually no significant changes in terms of the public deficit and the supposed structural changes. The external borrowing continued in order to reduce public deficits and stimulate demand which once again served the imports at the expense of domestic production and the Greece's exports. The government of Andreas Papandreou received the public debt in 1993 at 20.555 trillion drachmas and deliver it in 1996 at 36.24 trillion drachmas on the next elected government. That was an increase of almost 75% and the highest public deficit within the European community.

In short, the first government of Andreas Papandreou (with the election slogan of the coveted "change") in 1981, received the public debt at 589.5 billion drachmas, and delivered it to the amount of 5.2 trillion drachmas to the Mitsotakis government in 1990, which it handed it over to the third government Papandreou in 1993 at 20.5 trillion drachmas. During the next three years the public debt reached the 36.24 trillion drachmas by the change of leadership of PASOK in 1996.

In the elections of 10/10/1993, PASOK with Andreas Papandreou won the elections again. The state of the economy continued at the same pace as the previous three years with common features being a decline in the rate of growth, an increase in unemployment, an increase in foreign borrowing, which held back the country's demand and cover short-term budget deficits and consumer spending. PASOK received the public debt in 1993 from the Mitsotakis government at 20.555 trillion drachmas and will deliver it three years later at 36.24 trillion drachmas. Domestic debt consisted mainly of bonds and treasury bills and its overwhelming part was in drachmas.

Andreas Papandreou resigned from the leadership of PASOK and Konstantinos Simitis, a modernist as he was called, won the internal party elections. The country had failed to show any significant change until 1996; on the contrary, the situation was deteriorated and the country moved further and further away from the Maastricht Treaty criteria and the objectives of the European Union[90].

It should be noted that since the early 1990s Greece was already committing about half of its tax revenues for the payment of interest on loans, as stated by N. Christodoulakis, the country's former economy minister, in the foreword to the Greek edition of N. Hertz's book. This resulted in a lack of funds for infrastructure and development projects. New borrowing therefore, at higher interest rates, was mainly the only source of support for the Greek economy[91].

[90] Iliadakis T.M , External borrowing in the genesis and evolution of the New Greek State 1824 - 2009, Batsioulas Publications, pp. 425 - 430
[91] Hertz, N. (2005) *The Debt Threat: how Debt Is Destroying the Developing World*. Athens: Kritiki Publishing. p.19

6. The period of Constantine Simitis (1996-2004)

The election of Constantine Simitis as Prime Minister of the country brought about changes which came into conflict with the political establishment even within his own party. The changes were deemed necessary by the Maastricht Treaty and by the goal, which was none other than the country's accession to the Eurozone and the adoption of the common currency, the euro. The Structural changes in the public administration and in the fight against corruption, changes in the energy and telecommunications sectors through privatisation, changes in the health sector and to the critical issue of the social security system, and also changes in labour, were necessary according to the EU standards in order to reduce the public debt but also to show goodwill and alignment with Brussels. Several steps were taken in the right direction however the entrenched Clientelism within his party was impossible to change at once even if there was the intention from the government. The hard drachma policy continued. Military expenditure continued to be high as a share of GDP, unemployment rose after structural measures, and inflation would remained high, as would the trade deficit and current account balance despite the 1998 devaluation. Public debt was in drachmas and continued to increase, as borrowing, and especially up to this period, was mostly internal.

After the second election of Simitis' government, many things had changed and the country's ability for autonomy had already been reduced. The establishment of the ECB was determining the monetary policy of the European Union from 1/1/1999 and all central banks of the countries were placed under its supervision. The new currency and its introduction into the new common market set the new rules. Fiscal policy was no longer in the hands of the local government and the previous ways of covering deficits were becoming increasingly difficult or even impossible. Reforms or structural changes continued but tax evasion remained high and so the inability to raise tax revenues. The social security system continued to be a major problem, as did the pension insurance system, as deficits were increasing and also the unemployment was rising especially among younger people.

In the midst of this fall in revenues, the country engaged in excessive borrowing to cover the costs of organising the Athens Olympics in 2004. Thirteen years after joining the EEC, the financial programmes and funds from the European Union were diminishing significantly as new countries were entering the union and they were facing structural and economical issues too.

In the Greek context, the Simitis governments received in 1995 the debt of 28 trillion drachmas and delivered it in 2003 at 58 trillion (i.e. 171 billion Euros or 100.03% of GDP). Since 1992 but especially from 2000 onwards the Greek government's borrowing was in bonds so the distinction between external and internal borrowing became indistinguishable as it was in the Euro currency which is since then the common European currency.

6.1 The Kostas Karamanlis period (2004 - 2009)

Greece entered the euro zone in 2001 and for the next two years there were many changes in its fiscal policy and as a result there was a positive change in the growth rate, however, its maintenance was rather temporary, as it was mainly due to government spending and the projects for the organization of the Greek Olympiads. The timeless structural problems of the Greek economy such as the public deficit and the negative current account balance remained, so was the unemployment that reached up to 10% . This four-year period had broadly similar characteristics to the previous ones. The effort to promote structural changes brought to the surface and highlighted structural problems of the state administration, such as corruption in the public services, unjustified subsidies and tax exemptions, illegal recruitment in the public sector and tax evasion. Changes to the tax system were proceeding slowly and the social security system and contribution evasion remained unresolved despite European Commission suggestions.

During the period there were major privatisations of state-owned companies such as OTE, Olympic Airlines, the National Bank of Greece and the Commercial Bank, as well as the sale of large blocks of Postal Savings Bank and OPAP, with intense political controversy over the necessity and the terms of the sale agreements, which had negative terms for the country's interests. At the same time, scandals such as that of structured bonds occupied public opinion as political figures became involved. Greece received the third Community support framework for the coming years until 2006 in order to strengthen its competitiveness, to promote employment in important productive sectors and, above all, to strengthen regional development. However, the increase in growth indicators was temporary as it was due to the support of the economy and the market through European Union funds and borrowing. The unproductive (consumptive) use of these resources was accompanied by the lack of implementation of a long-term programme in order to promote the structural changes and the fiscal improvements needed.

Over the period 2003-2008, the expenditure on wages and pensions increased by 28%. In this context, the economy minister of the Karamanlis government announced after the so-called "fiscal census" that the previous government falsified the data in order for the country to enter the Eurozone and that the real public debt and the deficit were higher. This resulted in the country being pilloried and intensified the country's inclusion for the next 9 years in the surveillance procedure for not properly addressing the excessive deficit under the terms of the Treaty.

The term 'Greek statistics' was used pejoratively by a section of the European press to denote the compilation of false economic data by the Greek government on the performance of the Greek economy, thereby misleading its European partners. According to the stats of the Ministry of Finance, the public deficit increased in 2009 to 12.9% as well as the public debt which approached 115% of the gross domestic product. The international rating agencies S&P, Moody's and Fitch downgraded the country's credit rating at a time of the onset of the global recession, which resulted in the country borrowing at higher interest rates as spreads increased from 300 points in January 2010 to 1,000 points in April of the same year. The public debt increased as well as the debt service, which had a negative impact on the Greek economy and the inability to obtain new loans, which led it to resort to the financial support mechanism of the European Union and the IMF. Konstantinos Karamanlis was elected at the end of March 2004 and received the public debt at 184.5 billion Euros from the previous government. He will deliver it in September 2009 at 292 billion Euros, an increase of 58.26%.

6.2 The start of the new global financial and economic crisis in 2008

The crisis that started in 2007 affected the global financial system, as the losses from the bursting of the bubble led to a lending crisis and a rise in interest rates. The growth rate fell as the prices of raw materials and oil rose, resulting in higher inflation. The rising euro interest rates within the Eurozone created borrowing problems, particularly in the less developed countries of the periphery, and a serious sovereign debt crisis. The crisis gradually affected Greece but the government did not realize the severity of the crisis in time and the Bank of Greece was reassuring at that time about the safety of the deposits, the small exposure to the financial derivatives and the overall capital adequacy of Greek banks[92]. Nevertheless, the central bank proactively proceeded with easing and strengthening commercial banks as well as with interventions in the Greek stock market. Lehman Brothers and AIG had collapsed.

The Greek government and the central bank in September 2008 guaranteed the safety of the banking system by stressing that the exposure of Greek banks in the financial derivatives was small. The spread of the crisis in the European banking sector was now evident and negatively affected the Greek banks and as a consequence its investors were seeking securities and bonds of stronger financial states to secure their profit. The problematic treatment of the rumours by government officials and the media led to a bank run due to the fear of banks collapsing.

In this context, the Law 3723/2008 was approved and the 28 billion Euros in bonds and guarantees approved by the State and the Karamanlis government to support the banking system, following rumours of profit losses due to the Balkan expansion of Greek banks and with the prospect of enhancing money liquidity in the market through the loan lending. The FED and ECB proceeded with measures to strengthen and recapitalise banks with liquidity injections and a reduction in interbank rates. Government debt at the end of 2009 reached EUR 298 billion or 127% of GDP, up from 110% of GDP in 2008.

6.3 The George Papandreou period (2009-2011) - Memorandum I and the loan agreement

On 4/10/2009 Greece held elections in which George Papandreou was elected Prime Minister. Upon taking office, the new PASOK government revised the 2009 deficit figures determined by the previous Karamanlis government of New Democracy, claiming that the actual deficit was not 6% but the double, 12.7% of GDP. The fact that this was the second time that a Greek government had revised the Debt numbers of the previous government infuriated the partners in the European Union and as a

[92] Liargovas, P., Repousis, S. (2011) *Crisis, Lending and Bankruptcy - Greek and International Experiences.* Athens: Papazisis Publications.pp.205 – 207.

result the country's prestige was constantly attacked by the international and mainly the European media.

The negative impact of this action was huge, as well as the ambiguous and negative statements of government officials and of the opposition about the country's economic situation regarding foreign borrowing. Spreads increased dramatically and the country's credit completely downgraded by the international rating agencies, resulting in the impossibility of borrowing at painful and exorbitant interest rates. Jean-Claude Junker's phrase "The game is over" on 19 October 2009, led to the close surveillance, also formally, according to Article 126(9) of the Greek economy for the next period with the aim of reducing the budget deficit below 3% by 2014. In 2004 Eurostat revised again the Greek deficit and government debt of recent years, leading to a 15.4% of GDP in 2009 and a corresponding revision of government debt from 110% in 2008 to 126.8% of GDP in 2009.

The measures involved a wage freeze and cuts in overtime or travel expenses, as well as in the allowances of civil servants. Three months later, new measures were taken to reduce salaries by 7% for employees of the public sector, public bodies and legal persons governed by private law. In addition, holiday and vacation bonuses were reduced by 30% and public sector bonuses by 12%. The measures against the public sector followed by new increases in value added tax from 4.5% to 5%, from 9% to 10%, and from 19% to 21%. There was also a 15% increase in the petrol tax, an increase in the car import tax, and increases in the presumption of living expenses on cars and real estate. These increases caused strikes and demonstrations across the country towards the Memorandum.

The above measures worsened the country's fiscal and economic situation, by increasing the debt despite the internal devaluation that the Greek economy already suffered. This increase in the country's deficit and public debt led to a debt refinancing crisis that became unsustainable and Greece was unable to borrow from the markets at reasonable interest rates. There was an obvious default of the country, according to the George Papandreou government. However, before the approval of the loan agreement, the Parliament passed the Law 3833/2010 "for the protection of the national economy - urgent measures to address the fiscal crisis". That law determined the adjustment of salaries and allowances of public sector employees. After a period of intense consultations with the European Commission and the partners, the fiscal stability support mechanism for Greece was created, consisting of the incoming troika, the European Commission, the European Central Bank and the International Monetary Fund. Within the framework of this mechanism, the first loan agreement was drawn up, accompanied by necessary measures (as a condition of the loan) of fiscal adjustment and consolidation of the economy. In this way, default was effectively avoided and debt restructuring was initiated. The Prime Minister travelled to Kastellorizo where he announced the country's recourse to the mechanism in April 2010. At the same time, a loan of EUR 110 billion[93] was approved, of which EUR 80 billion came from the 15 Eurozone countries and the German bank KFW and EUR 30 billion from the International Monetary Fund. This loan was accompanied by a three-year adjustment memorandum for the Greek economy aimed at fiscal consolidation, financial stability and strengthening competitiveness[94].

The loan agreement was accompanied by the Memorandum of Economic and Financial Policy, the Memorandum of Understanding on specific economic policy conditions and the Technical Memorandum of Understanding. The measures that were a condition for the activation of the support mechanism and the loan agreement provided for the replacement of the 13th and 14th salaries of civil servants with a 500 euro bonus for those whose salaries reach 3,000 euro and their abolition above that amount. Increase VAT rates from 21% to 23%, from 10% to 13%, and the low rate to 6.5%, the reduction of allowances by 8% for civil servants, the replacement of the 13th and 14th pensions with an allowance of 800 € for pensions up to 2,000 Euros. It also provided for an increase in property values and a 10% increase in car import tax and a similar increase, in accordance with Article 4, in excise duty on cigarettes and beverages.

It also imposed new special taxes, an extraordinary social responsibility levy on legal entities and a special tax on television advertising, a reduction in heavy and unhealthy occupations, an extension of the probationary period for private sector workers from 2 to 12 months, an increase in the redundancy threshold, a reduction in the minimum

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[93] European Commission.(2010) *The Economic Adjustment Programme for Greece (2010).* Directorate - General for Economic and Financial Affairs. Available at : https://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp61_en.pdf

[94] Marias, N. (2011) *The memorandum of bankruptcy and the alternative way.* Athens: Livanis Publications. pp. 210 -216.

basic wage and a reduction in redundancy payments. In this context, the third adjustment/increase of the retirement age for female workers to 65 years in the public sector was also foreseen. Nationwide strikes and demonstrations followed by serious incidents led people to death. The bill was tabled in Parliament and was voted by 172 members of the parliament of the PASOK and LAOS party and the MP D. Bakoyanni of the New Democracy party. The Law 3845/2010[95] set out the joint programme between the Troika and Greece, authorising the Minister of Finance to represent the Greek State and to sign any memorandum of cooperation and agreement or loan agreement in general, simply by informing the Parliament (following the amendment of Article 4 of Law 3845/2010 by Article 9 of Law 3847/2010). The loans were provided by Eurozone and IMF member states at high interest rates to strengthen Greece's incentive to return more quickly to borrowing from the markets, in line with the "no bailout clause" Article 125 TFEU. The article prohibits, on a first interpretation, the bailout of one country by another, however, according to Professor Marias, an alternative reading could be assumed to refer to the dismissal of the expectations of the creditors of a European Union country in the event of non-repayment or default on its loans.

These bilateral loans between Greece and the European Commission/European Central Bank/International Monetary Fund were governed by different interest rates. The variable-rate loans were based on the three-month Euribor index, while the fixed-rate loans were based on the Euribor swap rate, which in 2009 was 5 %, according to the annex to the same law published in the Government Gazette in 2009. The loan agreement, which had English law as the applicable law, involved the 15 Eurozone countries and the German bank KFW under the guarantee of Germany. Any dispute in relation to the legality, execution or interpretation of the contract is subject to the jurisdiction of the court of the European Union, however due to the participation of the IMF and potential other participating lenders, in the event of a sale of the loan agreement, the country waived its national sovereignty in order to overcome the legal obstacle[96]. The seizure of movable property applies in cases, but only under certain

[95] Hellenic Republic.Ministry of Finance (2010) Law 3845/2010. Available at : https://www.minfin.gr/web/guest/nomoi/-/asset_publisher/R70RHvx4EwU1/content/nomos-3845?inheritRedirect=false

[96] Marias, N. (2011) *The memorandum of bankruptcy and the alternative way.* Athens: Livanis Publications. pp. 252 - 257.

conditions to property outside the borders and not to public property, such as seas, harbours and hospitals.

With this loan agreement, however, the situation changes, at least as far as the conditions are concerned. Also, the Troika has every right to veto if it does not agree with the government's decisions or with the failure to comply properly and effectively with the measures of the memorandum. The rights in the loan agreement can be assigned or transferred ,subject to the consent of all creditors. The debt can also be securitised and sold on international markets. Reasons for termination of the agreement include: failure to make payments, failure by Greece to comply with the terms and conditions of the accompanying memorandum, misleading the creditors and failure to repay debts to the International Monetary Fund on time.

The terms of the loan agreement have been criticised by many academics as unconstitutional, such as G. Kasimatis, K. Chrysogonus and others, as it was signed without the approval of 3/5 of the Parliament, but also mainly because of the clause of Greece's unconditional and irrevocable waiver of its immunity and national sovereignty as a state, which could be interpreted as the abolition of statehood and the confiscation of its unconfiscated property[97]. The memorandum was ruled constitutional by the Council of State with decision no.668 after appeals by several organizations in 2012, but in successive decisions in the following years it will decide the unconstitutionality of several provisions. That was followed by Law 3816/2010 concerning the regulation of debts of natural or legal persons from financing for business, professional and agricultural purposes, and Law 3869/2010 concerning debts of over-indebted individuals.

During this period, with the ambiguous statements of the Greek government officials, Eurozone, IMF, European Central Bank and European Union officials, the Greek bond spreads (CDOs) and CDS spreads were continuously increasing out of boundaries, resulting in international and not only speculators benefiting by earning

[97] Kasimatis, G. (2011) On the loan agreement, the memorandum and the IMF approval agreement. Independent Citizens Movement . Available at : https://web.archive.org/web/20110621014520/http://www.mikis-theodorakis-kinisi-anexartiton-politon.gr/el/articles/?nid=334 (Accessed: 30 October 2021)

excessive amounts and Greece on the other hand being at the mercy of memoranda, internal devaluation and excessive borrowing costs[98].

The media had been indulging in an unprecedented debt-phobia all this time and then again avoiding proper information and by propagandising the imposition of the measures as necessary without presenting the argument of opposing views which were projected as irrational and heretical to the public even though they were based on real facts. Their main argument it was the claim that the debt and the deficit were mainly due to wages and pensions (which amounted to EUR 26 billion) and not, for example, the debt servicing, which cost EUR 3 billion in interest and EUR 20 billion in interest payments, a total of EUR 33 billion in 2008[99].

The propaganda of the Greek and foreign media aimed at creating guilt and fear in the citizens so that they accept the austerity measures without any logical criticism and possible negative reaction. The fear was so great that people believed that the country would be destroyed if they did not accept the prerequisite measures imposed by the troika in order to provide a new loan to the government.

The Public debt of the country in 2008 stood at 95.3% of GDP, while two years after the implementation of the Memorandum it was approaching 120% of GDP. The country's real GDP fell by 2% in 2009 and the economic recession intensified in 2010; previous fiscal deficits resulted in the country's already dire economic position at the onset of the global recession that began in 2008. The mismanagement of the Greek economy by the previous governments led to an increase in the deficit to 13.6% and public debt to over 115% of GDP in 2009 despite the tutelage and surveillance of the European Commission and Ecofin. The external current account deficit was also above 11% and the negative net international investment position was above 83% as well as the expenditure on interest repayment of external debt was also increased. The objectives of the programme were to increase the growth rate of real GDP and reduce inflation below the euro area average through structural measures or with a reduction of the external deficit within a medium-term time frame.

[98] Liargovas, P., Repousis, S. (2011) *Crisis, Lending and Bankruptcy - Greek and International Experiences.* Athens: Papazisis Publications.pp.252 - 254.

[99] Marias, N. (2011) *The memorandum of bankruptcy and the alternative way.* Athens: Livanis Publications. pp. 222 - 224.

In order to achieve the above objectives, future governments were called upon to implement fiscal policies such as reducing expenditure, increasing revenues through tax increases, reforms in many sectors: in the health insurance system, the health care, in administration, in public finance and debt management and the frequent updating of the progress of the Greek economy by compiling statistical indicators. Further money liquidity support for Greek banks continued beyond the 28 billion approved in 2009 and proceeded with the establishment of the Financial Stability Fund to ensure the solvency and stability of the financial and banking system. The Bank of Greece also intensified its supervision of the financial system to ensure the proper functioning of banks. The management of state-owned enterprises was subject to transparency to maximise their efficiency and also the privatisation of state-owned enterprises and public assets were underway and were being put on the future agenda of the lenders.

Greek bonds were depressed after spreads hit 11 basis points while in 2008 they did not exceed one point. Within two years 2008-2010 the spread reached six percentage points, indicative of the difficult Greek borrowing outlook. Also in 2008-2009 the budget deficit increased from 9.4% to 15% as a percentage of GDP and the national debt from 110 still 3% to 126.8% of GDP[100].At the end of July 2010 by law 3854 of 2010 the financial stability fund was established with the aim of strengthening the recapitalization of banks and their capital adequacy. Its initial capital amounts to EUR 10 billion came from the European Union and the IMF. It is administratively autonomous and has no obligation to be accountable or to implement the instructions or laws of the Ministry of Finance. At the end of 2010 Greece faced stagflation and after the activation of the memorandum measures of Law 3845/2010 Greece sank into recession. No competitiveness and no growth had been achieved by this time period despite the implementation of the new measures. Public debt increased exceedingly from 103% of GDP in 2007 to 172% of GDP in 2011 demonstrating beyond any doubt the destructiveness of the austerity policies and measures adopted.

[100] Liargovas, S. and Repousis, S. (2011) Crisis, Lending and Bankruptcy - Greek and International Experiences, Papazisis Publications pp.256 - 258.

Memorandum 2

The implementation of the measures of the first Memorandum was followed by demonstrations and strikes, and repression with the intervention of the Police, which aggravated the internal situation of the country. At the end of June, Law 3985/2011[101] was passed, which was called the "Medium Term Fiscal Strategy Framework 2012-2015", that aimed to reduce expenditure (salaries) in order to increase revenue (Taxes).

A public property fund was established to exploit state property with the aim of generating 50 billion Euros in revenues through privatizations. The new law provided new tax burdens for incomes above 8,000EUR and a special levy for incomes above 12,000. There was also an annual contribution for self-employed persons and traders and a special solidarity contribution for the unemployed.

In addition, various operating costs of the state were reduced and there was also a transfer of some goods and services to a higher tax scale and a special monthly levy on supplementary pensions was foreseen. Furthermore, the duration of fixed-term contracts was changed from two years to three years and new recruits without professional experience would be paid below the national collective agreement threshold, and a labour reserve was introduced for abolished organisations.

The law also provided for the merger of social security funds and the suspension of employees' seniority and reduction of staff, without new recruitment in public organizations. In addition, the tax deduction with receipts was abolished, traffic taxes were increased and a graduated objective cost of housing was added. The implementation of the measures were followed by intense demonstrations throughout the country and the emergence of the indignant movement, but despite its initial momentum it was gradually disintegrate, and was often met with violent repression by the institutionalised forces of order.

Despite the implementation of the measures the results weren’t as expected and as a sign of good faith of the Greek government of PASOK, the Minister of Finance Venizelos announced new tax measures to raise revenues. These measures included the imposition of a special tax on the surface area of real estate that appeared on the

[101] E-nomothesia.gr (2018) Law 3985/11 (Government Gazette 151/A/1-07-2011): Medium Term Fiscal Strategy Framework 2012-2015. Available at: https://www.e-nomothesia.gr/kat-oikonomia/n-3985-2011.html

electricity bill, a reduction of the tax-free threshold from 8,000 to 5,000 Euros, new public sector wage cuts and the establishment of a single payroll and reductions in pensions. The increase in the public debt of Greece and other countries led to the adoption of new measures to deal with it, but also to the capital strengthening of the financial stability fund, through the issuance of its bonds in order to meet the money liquidity needs of states and banks by providing loans or buying government bonds.

At the end of October 2011, the European Union summit announced a voluntary 50% haircut of the nominal value of Greek debt held by individuals, Greek banks and insurance funds and its replacement with new securities governed by English law. The new bonds received by the individuals came from either the Greek government or the Financial Stability Fund and the interest rate ranged from 2% to 4.3%, with an average of 3.65% over a 10-year range and bonds with maturities of 10 to 30 years, in a reduction of nominal debt of about €100 billion. The debt restructuring with the so-called PSI in 2012 proceed to a haircut of a nominal debt of €106 billion from a €198 billion of debt held by individuals. At the end of the year, the government undertook a debt buy-back, the so-called PSI Plus, of EUR 20 billion to reduce debt and there was also a restructuring of official sector debt (OSI) with a reduction in interest rates and an extension of the repayment period.

The rating agencies Moody's and Fitch downgraded Greece after the announcement of the PSI to a selective default status which meant that part of the debt would be repaid with no reduction . This restructuring was the largest in the world up to that time and private participation reached almost 100%.The voluntary participation was imperative as otherwise it would have been perceived as a credit event for the country by the international markets and the payment of CDS risk premiums would have been triggered.

The agreement caused strong domestic unrest, as well as intense political debate on the agreement. George Papandreou raised the possibility of a referendum to force the opposition to take an active position on whether or not to support the agreement. The institutional representatives of the European Union had informed the government that any tranche will be disbursed after the referendum. Finally, instead of a referendum, following an agreement between the two largest factions, a new government was formed with members from PASOK, New Democracy and LAOS, with Lukas

Papademos as a Prime Minister, the former Governor of the Bank of Greece during Simitis' governance who also served as vice president of the European Central Bank.

6.4 The government of Lukas Papademos

The second memorandum was accompanied by a 109 billion euro loan and was concluded by the coalition government of Lukas Papademos on 12 February 2012. The memorandum aimed to take new measures to reduce the deficit to 7.6% of GDP. The main measures provided for a reduction in various sectors such as in local government and health care, in defence and in general government spending, and in the abolition of a large number of public sector jobs over three years. The new adjustment programme[102] also provided for the closure of tax offices, the abolition of tax exemptions on the islands, the opening of all closed professions such as notaries, pharmacists, transporters and public transport. Also, the new memorandum provided for a plan to sell the public utilities, the privatization of the Hellenic Public Power Corporation (HPPC, DEI) with the sale of lignite mines and hydroelectric dams and the Hellenic Railways Organization (HRO), new reductions in pensions and in the number of staff (reduction by 150,000) and also in the salaries of civil servants by 22%.

Medium Term Fiscal Strategy Framework 2013-2016

Despite the implementation of the two memoranda and the updated programmes, the revenues for the repayment of the upcoming debts had not increased; on the contrary, the Greek economy was deteriorated even further. The new medium-term programme sought to increase revenues by €19 billion. Indicative of the situation prevailing in 2012 is that due to the inability to form a self-sustaining government, a caretaker government of Panagiotis Pikrammenos was appointed. New elections were called and Antonis Samaras was elected as the new Prime Minister of the country with the New Democracy party and the cooperation of PASOK and DIMAR.

After the restructuring (PSI & PSI Plus) and the debt buyback (OSI), in 2013 the public debt was reduced by 49%.Although after the PSI the country was paying lower interest rates, the situation remained very difficult. For example, in 2009 at the

[102] European Commission - Directorate-General for Economic and Financial Affairs - The Second Economic Adjustment Programme for Greece (2012).Available at : https://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf

beginning of the crisis the country had 290 billion Euros of debt and had to repay 220 billion Euros by 2019.This led to the PSI and after that the country owed € 300 billion in 2015 and had to repay € 80 billion by 2025, and in general a sum of 140 billion Euros after 2035.That debt does not include treasury bills. From 2013 onwards the debt was increased steadily in relation to GDP which was decreasing annually and the servicing was also decreasing due to low interest rates.

6.5 The government of Antonis Samaras (2012 - 2014)

The new government proceeded with new measures according to the instructions of the country's creditors. The new measures provided for the abolition of gifts and holiday allowances for pensioners and civil servants, a 25 euro ticket for admission to hospitals, cuts in special payrolls and the one-off pension, Increase in the retirement age while reducing pensions from € 1,000 and above. Also there was an increase in taxation of LPG and energy with a levy on photovoltaic units.The previous measures of the memoranda also apply during this period.

6.6 **The government of Alexis Tsipras and the Independent Greeks (2015-2019)**

The new coalition government of SYRIZA and the Independent Greeks, which was elected on 25 January 2015, continued in the same steps as its predecessors, despite the pre-election socialist revolutionary euphoria of statements and announcements. It even held a referendum on whether to remain in the Eurozone according to the creditors or accept the new plan and the new austerity measures of the creditors or not according to the government. And while the answer was a majority of more than 60% negative votes, it was overlooked and an agreement with the lenders was reached, leading to the signing of the Third Loan Agreement and the Third Memorandum[103] by the coalition government of SYRIZA and the Independent Greeks.

The signing of the third fiscal adjustment programme and the loan agreement by the SYRIZA and Independent Greeks government provided for € 86 billion in financial assistance for the period 2015-2018 and a € 25 billion reserve for the needs of the banking sector. The memorandum accompanying the loan agreement provided for new measures to increase revenues by restructuring the value added tax by broadening

[103] Council of the EU and the European Council.[n.d] *Greece: The third economic adjustment programme.* Available at : https://www.consilium.europa.eu/en/policies/financial-assistance-eurozone-members/greece-programme/

the tax base, reforming the pension and justice system, reducing public spending and modernising the public administration and the labour market, and promoting privatisations and the legal independence of ELSTAT.

The unemployment rate in 2017, according to ELSTAT data, ranged between 20.1 and 24%[104]. After a few days Capital Controls were imposed and banks and the stock market remained closed in order to stop the withdrawal of deposits, however these measures remained in force for the next four years with a gradual de-escalation just as in Argentina during the period 2011-2015.Banks proceeded in the following period to pump money liquidity of about € 90 billion from the Emergency Liquidity Assistance (ELA) mechanism. The people's questioning and indignation caused political confrontations and disagreements within the two parties of the coalition government. This was gradually lead to the resignation of the government and then to the formation of a new government with Vasiliki Thanou as Prime Minister, the President of the Supreme Court, until the early elections on 20 September 2015, which were won again by the SYRIZA - Independent Greeks coalition government.

The new coalition government proceeded with the adoption of Law 4472/2017 (to be called the fourth memorandum) with the aim of collecting new revenues of €5.5 billion. The measures envisaged by the multi-bill were the abolition of the Social Solidarity Benefit for pensioners, the reduction of the tax-free threshold to € 5,700, a 3% increase in the farmers' contribution, the abolition of the income withholding deduction and the liberalisation of collective redundancies. In addition, the Hellenic Holding & Property Company S.A. was created and entrusted with the public sector's share in a large number of companies to be privatised. The above measures were also provoked reactions and protests from the entire citizenry who were already tired of the implementation of the previous austerity programs. The next August the country exit the memoranda after 8 years , however, the measures of the memoranda remain in force .The Country had lost at that time 28% of its GDP, with unemployment at 20% and the Greek banks holding many "red" loans and finally a public debt at 180% of GDP, the highest in the Eurozone.

[104] Hellenic Statistical Authority. (2021) *Employment status and unemployment rate (January 2004 - September 2021).*Available at : https://www.statistics.gr/en/statistics/-/publication/SJO02/-

The Greece's exit from the Memoranda has been hailed by the international media with the BBC hosting Professor Kevin Featherstone, director of the Hellenic Observatory at the London School of Economics, who concluded by admitting that the country's acceptance of the measures has had an effect: "Greece had saved the euro[105]." The Greek government continued to be under the supervision of the European Commission to ensure that it does not deviate from adhering to the agreed measures. The important fact for the media and the government was that it would be able to borrow from the markets again so that the debt can continue to be sustainable and the country can become competitive as the third loan programme of the European support mechanism was coming to an end.

6.7 The Government of New Democracy (2019-2022)

In the summer of 2019 elections were held from which the new government of the new Democracy was elected. After six months the outbreak of Covid-19 worldwide imposed restrictive measures in all sectors including the economy to limit the spread of the virus. This has resulted in the closure and bankruptcy of hundreds of shops and companies with a large part of the working population now unemployed. The weak health care system is already reeling from the financial cuts and unemployment and inflation from the revaluation of essential goods have undermined the standard of living of the majority of Greek families.

The European Union took different and unilateral measures in the beginning with regard to restrictions without much coordination from the European Commission. Subsequently, under the weight of developments, the ECB proceeded to provide a money liquidity support programme (Pandemic Emergency Purchase Program) for all European States, a guarantee fund for lending to small businesses from the European Stability Mechanism and the SURE programme to support employment in the aftermath of the Coronation crisis (lex EU budget). However, the negative consequences of the Covid-19 crisis that are already visible, combined with the deterioration of macroeconomic indicators across the EU, led to the preparation of the Multiannual Financial Framework 2021-2027, together with the "Next Generation

[105] BBC News (2018) *Greece emerges from Eurozone bailout programme*. 08/20/2018.Available at: https://www.bbc.com/news/business-45243088

EU" Recovery Plan for the following years[106]. (Lex Europe powering). Greece has already submitted its National Plan[107] for the absorption of the resources of the Growth and Resilience Facility which was approved by the Economic and Financial Affairs Council (ECOFIN) on 13.7.2021. This Plan amounts to EUR 17.8 billion in grants and EUR 12.5 billion in loans. Greece, along with other EU countries, has also triggered national escape clauses allowing for a suspension of fiscal rules and accommodating the budgetary implications of the Covid – 19.

According to the IMF's debt sustainability assessment after its visit to the country in July 2021, GDP contracted by 8.2%in 2020.ECB financing and investment through the Recovery Fund are largely holding back the decline. Nevertheless, uncertainty in the post-Covid era is too great to draw firm conclusions about the sustainability of long-term debt.

As noted in the statement, "This marks a departure from the IMF staff's previous long-term debt sustainability analysis, published in 2018, which also acknowledged high uncertainty but nevertheless concluded that sovereign debt sustainability was not assured by a realistic set of macroeconomic assumptions."

The statement also stresses that debt sustainability will be judged by Greece's borrowing costs from the markets in an unfavourable environment of dealing with the effects of Covid on the economy on the one hand and continued growth in public debt on the other.

Since the coronavirus outbreak, the debt crisis has been relegated but will appear stronger and more devastating after fighting the virus.

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[106] European Commission (2020) *The EU budget powering the recovery plan for Europe*. Available at : https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2020%3A442%3AFIN

- European Council (n.d) Consilium COVID-19: the EU's response to the economic fallout. Available at : https://www.consilium.europa.eu/en/policies/coronavirus/covid-19-economy/

[107] Gov.Gr (2021) *The National Recovery and Resilience Plan* “Greece 2.0”. Available at : https://greece20.gov.gr/en/the-complete-plan/ (Accessed: 10 November 2021)

In this context, Greece after the Crisis and the continuous recession since 2008 and the outbreak of Covid – 19:

- Shows a negative growth record in the last five years (Average - 0.4) with the Value added shares in the GDP to be : Services 78.2%, Industry including construction 17.5% and Agriculture, forestry and fishing 4.3%[108] ,

- The officially recorded unemployment rate from January to September 2021 to be 15.17% given the seasonal summer employment[109],

- According to the results of the 2020 Survey on Income and Living Conditions, persons at risk of poverty or social exclusion represent 28.9% of the total population (3,043,869 persons)[110]

The Hellenic Statistical Authority (ELSTAT) through the quarterly publication

" Greece in figures " (2020) notes[111]:

- The acute demographic problem. A negative difference (- 46.317) between Births (84.767) and Deaths (131.084),

- A decrease in GDP in current prices (billion €) from 183.4 in 2019 to 165.8 in 2020.

- Decrease in the current account balance from -1.5 in 2019 to -6.7 in 2020.

- Decrease in the Trade and Services Balance from -0.9 in 2019 to -6.8 in 2020,

- Increase in General Government Debt (per Maastricht) from 180.5% of GDP in 2019 to 205.6% of GDP in 2020.

According to the latest data released by the Hellenic Statistical Authority, Greek debt reached € 354 billion after the end of the second quarter of 2021 from € 344.17 billion in the previous quarter, increasing by € 21 billion compared to the previous year.

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108 Organisation for Economic Co-operation and Development (OECD) *Economic Survey of Greece (2020)*. Available at : https://www.oecd.org/economy/surveys/Greece-2020-OECD-economic-survey-Overview.pdf

109 Hellenic Statistical Authority. (2021) *Employment status and unemployment rate (January 2004 - September 2021).*Available at : https://www.statistics.gr/en/statistics/-/publication/SJO02/-

110 Hellenic Statistical Authority.(2021) *Risk of Poverty.2020 Survey on Income and Living Conditions (Income reference period: 2019).* 23/07/2021. Available at : https://www.statistics.gr/documents/20181/16939796/Risk+of+Poverty+%28+2020+%29.pdf/92456ff4-ca92-fd4d-df49-81c297c978e7?t=1633520582295

111 Hellenic Statistical Authority (2021) . *Greece in figures. July – September 2021.* Available at: https://www.statistics.gr/documents/20181/17529706/GreeceInFigures_2021Q3_EN.pdf/61f2a0d5-e229-d4ee-034c-4e46a129584d

Also the recent diagnostic study by the European Bank for Reconstruction and Development (2021) includes some enlightening conclusions[112]:

- Non-performing loans in Greece are way above EU levels. The level of non-performing exposures (NPEs) stood at 35.3 percent of total loans as of September 2020. This is far beyond all other EU member countries, where the NPE ratio is typically in single-digit levels (and 4 per cent on average).
- Almost all companies in Greece (99.9%) are small and medium size (SMEs), and the majority of SMEs are micro-enterprises contributing 63.6% of value added and 85.2 %. of employment.

The majority of these companies are "Zombie" firms and as it notes "that apparently are unable to repay their debt but continue operating - remain in operation to a large extent, undermining the financially healthy firms by competing on an unfunded basis and increasing the cost of capital for all."

- Spending on research and development (R&D) is limited and almost half of the EU average (1.1 per cent of GDP against the EU average of 2.1 per cent).
- According to the WEF Global Competitiveness Index (GCI) 2019, Greece is in the 59th position in the total rank and in the 85th position among 141 economies with respect of the quality of institutions[113].
- According to the Worldwide Governance Indicators (WGI) of the World Bank, Greece's scores are below the EU average in all categories (voice and accountability, absence of violence/terrorism, government effectiveness, regulatory quality, rule of law,) below zero in political stability and control of corruption since the beginning of its crisis and still remains at the bottom of the EU in the regulatory quality and government effectiveness[114].
- The justice system in Greece, is still facing substantial efficiency challenges due to structural obstacles according to the 2021 Rule of Law Report[115].

[112] Brouillard, J., Sanfey, P. and Sourvanos, D. *Greece diagnostic - January 2021*. EBRD (2021) .pp 10 – 20 , 30 – 32 .Available at : https://www.ebrd.com/documents/strategy-and-policy-coordination/country-diagnostic-paper-greece.pdf

[113] Schwab, K.(2019) *Global Competitiveness Index (GCI) 2019.* World Economic Forum. Available at :*https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf*

[114] World Bank (2021) *The Worldwide Governance Indicators (WGI) project*. Available at: https://info.worldbank.org/governance/wgi/

[115] EUR Lex (2021) Rule of Law Report. *Country Chapter on the rule of law situation in Greece*. 20.7.2021. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021SC0709

- According to the Corruption Perceptions Index (CPI) 2020 by Transparency International, Greece scores 50/100 and is at the 59th place out of 180 countries and territories globally and below most EU member states[116].

- The heavy market regulation is also evident in the World Bank's Ease of Doing Business in 2020 with Greece ranking 79th globally - the second lowest position in the EU[117].

The position of the country as reflected by the scores of the above mentioned organizations is particularly negative especially if we take into account the economic crisis and recession that started in 2008 and still continues despite the continuous austerity measures taken during the implementation of the memoranda. Apart from this, the outbreak of Covid-19 has worsened the already unfavourable economic situation of the country and the tired and weakened by austerity Greek people and the real consequences will be seen in the near future.

6.8 The main causes of the crisis of the Greek state in the 20th century - Conclusions

The involvement of the great foreign powers and their banking interests and speculation in Greece played a very important role as in order to gain profit through borrowing at onerous terms and interest rates and using the Greece's important position for their political aims (Trade, containment of Russia, party risks, control of the Balkans - eastern Mediterranean and geopolitics of energy) led to the over-indebtedness of the country. The payment of debts and the ever increasing interest payments have been an obstacle to the Economic Growth of the country from the very foundation of the Modern Greek State. The creation and strengthening of political contradictions in the country resulting in an unstable situation with rebellions and military movements disorganized all sectors due to the conflict of foreign interests in Greece.

The existence of incompetent political persons, with strong party affiliation, who through intrigues, mismanagement of public money, voluntary or involuntary policies

[116] Transparency International (2020) . *Corruption Perceptions Index – Greece.* Available at: https://www.transparency.org/en/cpi/2020/index/grc

[117] The World Bank.(2020) *Ease of Doing Business report. Doing Business in the European Union 2020: Greece .* Available at: https://www.doingbusiness.org/en/reports/subnational-reports/greece

due to incompetence had a negative impact on all internal sectors of the country as well as on foreign policy and international position - prestige of Greece. The absence of politicians with vision, sense of responsibility and consistency, selflessness and economic planning has always been the biggest and the real problem of the country. The 20th century was particularly intense for Greece, Balkan wars, First World War, Asia Minor disaster, Fourth Bankruptcy, Second World War, military dictatorships and continuous devaluations of the currency.

The country would emerge from WWII completely devastated and with the financial help of the Marshall Plan would try to get back on its feet. These actions towards industrialisation and development will constantly run up against a tense and unstable political scene, with short-lived governments, backroom political disputes, selfish ambitions, no consistent economic programmes and no consistent economic vision. The palace's opposition to the governments and the new global developments would lead to the establishment of the colonel junta and seven years later will give way to regime change. All previous periods will be distinguished by common features such as dependence on the countries of the centre, constant borrowing to pay existing debts, uninterrupted acceptance of all debts without careful auditing, loans for State operating expenses rather than productive ones, lack of fair taxation, tax exemptions for foreign and domestic capital, mismanagement and waste of state revenues and EU financial programmes, undignified and partisanship with strong Clientelism, inequality of social classes, lack of organisation and planning of a long-term economic recovery programme.

The increase in public spending especially during the regime change period and afterwards is a common feature of all governments resulting in an increase in public debt. The inadequate tax system focused mainly on the taxation of employees and pensioners with significant tax exemptions for the upper economic classes, the corruption in the public sector was quite high according to international data and for most of these cases no justice has been done.

After entering the Eurozone, the Stability and Growth Pact , which sets the levels of debt, government deficit and inflation and applies to all countries without taking into account the specificity and level of each economy, will lead to inappropriate structural measures and direction.

Joining the Eurozone with the falsified data that the European partners ignored, was a success for the peculiar Greek bourgeoisie, which ensured the country's participation in the new Community programmes in the dissipation of which it will take part by undertaking investment projects and state infrastructure projects through European subsidies. As a matter of fact, is already ready to undertake the next 48 projects of 2.76 billion Euros announced in July and October this year by the Recovery Fund (2021). Following the country's entry into EMU and the adoption of the euro as the new currency, Greece no longer has the possibility of using a very important monetary tool in the event of an economic crisis, that of devaluing its currency.

The wage increase was temporary as the increase in inflation after the country's accession to the euro gradually annihilated it. Greece had all the characteristics of a peripheral capitalist society whose dependence on the centre continued and got worse economically, politically and militarily because of its geographical location and, by extension, its geopolitical importance. After the regime change and the accession to EU the lack of development programmes and consistent fiscal and monetary policy led to an increase in borrowing despite initially favourable interest rates which will not be used for investment purposes and to support long term programme but consumer spending and expansionary party vote fiscal policy. With the adoption of the euro the country was borrowed, in many cases, at higher interest rates from commercial banks as there was no possibility of borrowing from the European Central Bank directly or from other alternative sources and the mismanagement of EU funds resulted in the degradation of the primary and secondary sectors and the parallel growth of the tertiary services sector.

With the onset of the crisis there was a derailment of public debt followed by a recession, the Greek state was considered insolvent due to Greek statistics and therefore borrowing was either impossible as creditors refused to lend due to the high risk or lend at very high interest rates. At the same time speculative games against the country regarding CDOs and CDS[118] risk premiums made the situation even worse. After the first stage of the crisis, the difficult financial situation of many Eurozone countries such as Italy or Spain and Portugal became apparent.

[118] World Government Bonds (2020) *Greece 5 Years CDS - Historical Data*. Available at : http://www.worldgovernmentbonds.com/cds-historical-data/greece/5-years/

Greece was used as a scapegoat and was brutally punished so that the other European partners would set an example and adopt harsh austerity measures even though Greek debt was not the biggest threat to the Eurozone compared to the fiscal situation of other countries.

The real role of the banks in the creation of the financial crisis in particular was ignored and instead of that the people of the countries were targeted as "lazy" that would then be called upon to recapitalise the banks and bail them out by nationalising their private debt and taking debilitating austerity measures and increasing public debt.

Greece and its citizens were unable to meet even the most basic needs and were struggling for survival until a few decades ago and even though the country was freed from the Ottoman yoke it never freed from the great powers nor from the vast majority of the former upper class who took on the role of placeholder and mutated into political managers and political influencers motivated by self-interest and selfishness until today and collaborated with any Foreign interest for their individual profit at the expense of the country.

After the memoranda

The crisis of the memoranda has degraded the standard of living of citizens as the reduction of wages and pensions, unemployment and inflation has driven a large part of the population below the poverty line. Savings have now evaporated after the continuous memoranda and many families are finding it difficult to meet basic needs for electricity, heating and water. The reduction in social spending has undermined the public health system; the public services provided and have led to understaffing of the public order, resulting in an increase in crime. In this context, anxiety and fear about the present and the future prevail and stress has led to depression, suicides[119] and an increase in diseases such as autoimmune diseases. The demographic problem is intensifying as it is very difficult to start a family in these uncertain and insecure conditions.

[119] BMJ Open.(2015) Health policy Research. *The impact of economic austerity and prosperity events on suicide in Greece: a 30-year interrupted time-series analysis.* Available at: https://bmjopen.bmj.com/content/5/1/e005619.long

The country's productive sector has been degraded, with the result that it imports more than it exports, always in comparison with the countries of the Centre. Continuous deficits have been covered by borrowing that is increasing the public debt, which became impossible to service with the onset of the financial crisis. From 2008 onwards, the loan agreements, which had the strict objective of finding revenues to repay existing loans, were accompanied by austerity measures annihilating the primary and secondary sectors and hitting the tertiary services sector hard.

The country continues to run deficits at least a decade later, with rising unemployment, inflation despite heavy taxation of the lower classes, tax breaks for capital and, above all, intense privatisation of public assets on the grounds of high debt, which are being carried out at bargain prices to business interests, reducing the assets of the state which could serve as collateral for future borrowing.

According to the World Bank an external debt ceases to be sustainable when it exceeds 80% of GDP. For the Greek debt to be serviced there must be a stable rate of growth, primary surplus and GDP growth for many years and of course the ability to obtain loans at very favourable interest rates. The increase in the growth rate is influenced to some extent by the increase in spending and revenues through economic policy within the Greek economy but the positive or negative effect of external loans (EU, IMF, ECB, Hedge Funds) with floating interest rates cannot be determined with certainty for the coming years[120]. Therefore the sustainability of the debt cannot be determined with certainty and especially when emergencies such as Covid - 19 arise. After the ten-year economic recession and the outbreak of the pandemic, this becomes impossible as:

- The country does not have the ability for a further internal devaluation after the 10 year recession and at the same time does not have the monetary instrument of devaluation, also due to the increased public debt the country borrows at high interest rates from the markets so the servicing costs will be high again,

[120] Liargovas, P. (2014) *Is Greek debt sustainable?* Economic Chronicle. Publication of the Economic Chamber of Greece - Form No 210115. Available at : https://www.oe-e.gr/wp-content/uploads/2014/10/OEE_147_web-SITE.pdf (Accessed: 20 November 2021)

- The imposition of an increasingly heavy tax burden on the Greek people is not possible, nor is a further reduction in social spending as the country's standard of living is already quite low compared to the European average.

- The possibility of foreign investments and competitiveness is low as without new capital the innovation and modernisation is difficult and a new default is always possible due to the difficult situation of the country .

- The fiscal and monetary policy continues to be in the hands of international economic control which has hardly ever left Greece.

The prospect of a new debt restructuring comparable to the first PSI will again only give the country a temporary reprieve, assuming it is possible to happen and no longer be considered a pure default by the international markets rather than just a selective one.

The process of the first restructuring was very painful primarily for Greece leading to repeated austerity programs with the known negative results. There does not seem to be any intention from the European creditors for another debt restructuring with a longer repayment period, lower interest rates, write-off of a part of the Debt ,however, since the numbers do not lie and according to the IMF the debt after the COVID - 19 Crisis, will not be sustainable.

On the other hand, the issuance of a Eurobond is formally ruled out by all the partners, especially the strong northern economies, as they do not wish to bear the burden of the debt of Greece and the other countries of the periphery,

citing the "no-bailout" clause (article 125) of the Lisbon Treaty, which prohibits EU members from assuming liability for the debts of other members.

There is also no room for new austerity measures and internal devaluation without the possibility of causing unrest and chaos. The other solution would be for the ESM and

EFSF[121] to continue to finance Greek debt for a long period at very low interest rates, but this is a prospect that will inevitably be adopted by other debt-crisis countries[122].

Under these adverse conditions, even borrowing at zero interest with a long grace period still it would be very questionable if the service and the repayment of existing debt could be possible.

6.9 Proposals

A study of global economic history over the last two centuries reveals the timelessness of sovereign debt and the defaults that have resulted from it. All countries have defaulted at least once in their history. The challenge is to investigate the causes of the default and to solve the problem by drastically writing off the public debt in order to avoid a recurrence of default. As it has been proven in the case of Greece, no action has been taken over time by the governments except by the Kapodistrias government in order for the public debt to stop being an obstacle to the Economic Growth and development of the country. The great powers, especially the European ones, played mainly a negative role all along the Greek history speculating against the Greek economy by borrowing at usurious interest rates, with capital below par and by imposing fiscal austerity measures for the repayment of the overdue obligations that resulted in the disintegration of the Greek economy.

This policy of the great powers within the framework of the European Union until 2007 continued to be the same: with excessive borrowing to the weak countries managed to create and maintain demand and support with that way their exports by financing the imports of products of their powerful industries, which resulted in over-indebtedness of the weak European states. The country's entry into the Eurozone while not meeting the criteria, served this purpose of which competitiveness of the country was destroyed and the easy borrowing had dissolved consciences and degraded entrepreneurship leading to overconsumption and increase in public debt.

[121] European Commission. [n.d] *European Financial Stability Facility (EFSF)* . Available at : https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/european-financial-stability-facility-efsf_e (Accessed: September 2021)

[122] Peterson Institute for International Economics (PIIE) 2018 . *How to Solve the Greek Debt Problem*. Policy Brief. Available at : https://www.piie.com/system/files/documents/pb18-10.pdf

In this context, financialization with the parasitic and speculative role of the financial system and the ambiguous role of the central banks, which did not prevent direct over-borrowing despite the statistical evidence of the constant increase in twin deficits and the over-indebtedness of weak countries in relation to strong ones, will be added to this. Of course, none of this would have been easy to happen if the economy and society were not managed by political influencers, with an ambiguous role more as enforcers of the execution of the agreements than as developers of a long-term plan with the prospect of saving the country from debt.

The powerful European powers have demonstrated their intentions throughout two centuries of economic history by exploiting economically weak countries to speculate on borrowing, to serve geostrategic games and to exploit the countries' mineral wealth and raw materials.

The financing of the restart of the economies of the European States and Japan after the Second World War served American interests in the long term and the Eurozone respectively proved to serve the interests of the two main great powers Germany and France with the consent and support of the United States of America rather than benefiting the other countries. The European Union of countries as it has been up to now, rests on two different goals, politically and economically. Since the Maastricht Treaty, the disparity and heterogeneity of the countries that make up the European Union and especially the Eurozone at all levels has resulted in the gradual over-indebtedness of the peripheral countries compared to the surplus countries of the Centre. That occurred due to the lack of a surplus recycling mechanism and the over-indebtedness of the countries through the financial and inter-banking sector, revealing the inadequate role of the ECB in times of crisis and, above all, the general structural problems of the European Union.

The asymmetry in countries' interests has a negative impact on monetary policy decisions, which determine the fiscal policy of the euro area to the detriment of the weaker economies in particular. More than a decade of economic crisis and recession, the increase in public debt and the deterioration in the living standards of European citizens and Greeks raises questions about the purpose of the European Union and the Eurozone. To date, its sole purpose is to save and maintain the value of the euro as a global currency in accordance with its statutes by insisting on deficit reduction, balanced budgets despite the circumstances and the fear of inflation instead of prosperity and an increase in employment and in the standard of living of its citizens.

The division between the centre and the periphery, north and south has always existed due to unevenness in all areas, but now it has become a division and it is all too evident and overt. With a brief recapitulation of all the measures that have been taken, it is clear that the aim is to rescue the financial and interbank sector and not the economies of the states and to ensure the development of European societies, including Greece. The refinancing of Greece's debt by the European support mechanism at high interest rates has increased the debt and worsened the economic indicators and the standard of living of the country due to the implementing of the fiscal austerity measures imposed as a condition of the loan. The memoranda have mainly affected the lower classes rather than the upper classes which, in times of crisis, benefit from the general recession, especially when they are fiscally insulated. Nevertheless, because of a general global financial crisis that has resulted in an increase in the public debt of all countries, the Greek people and other countries like Portugal, Italy , Spain and Ireland were blamed with derogatory terms such as 'lazy' and 'pigs'.

Three years later, the European Central Bank proceeded to deal with the crisis by buying bonds and nationalising the debt and this had the effect of increasing the public debts of the country and the Eurozone and of fiscal austerity, which is increasingly destroying the rule of law. The self-fulfilling prophecy of increasing public debt is being fulfilled as public spending is curtailed, taxes on the lower classes are increased ,borrowing and investment is reduced, income and wages and therefore demand is reduced , thus increasing unemployment , exports are reduced but imports are increased with their inelastic prices leading to inflation. Internal devaluation and deflation have not led to the competitiveness of the country nor to the reduction of the public debt of the twin deficits neither to the increase of the standard of living.

It is in this context that the IMF and the European Union have decided on controlled bankruptcy. This solution, which is always to the detriment of the debtor, is preferred when every solution for dealing with the debt crisis has been tried and given and predicted a forced default, a controlled default by exchanging the old bonds for new ones is chosen. The restructuring or PSI that took place in 2012 resulted in:

● The ‘haircut’ of bonds at their full face value while in the secondary market the price was significantly lower

● By extending the repayment period,

● Exchanging the old bonds for new ones with the English law applicable at slightly lower interest rates

● By cutting the bonds of private banks in order to ease their liabilities and balance sheet, but with parallel recapitalisations, guarantees and money liquidity packages and therefore nationalisation and an increase in the country's public debt. The PSI was accompanied by austerity measures that worsened the country's economic situation rather than saving it, as claimed by the media and Eurozone government officials. The European banking system made big profits by borrowing cheaply from the European Central Bank and then lending at high interest rates to Greek banks. The EU therefore lent the banks of the southern periphery to repay their bank loans to the banks of the north and the European Union decided at the same time to nationalise the debt of the banks by means of support measures.

The objective achieved in all previous years was to support the Greek banking system, which is part of the interbank system of the European Union and the Eurozone in particular, to the detriment of European societies. This has generally been the treatment of Greek public debt by Eurozone officials so far, with the measurable negative results that the country has experienced so far. In the context of the Eurozone debt, various solutions have been proposed for Eurobond issuance such as that of Pâris and Wyplosz, with the ECB buying 50% of the debt of the states proportionally and converting it into a zero-interest bond to be repurchased by the states themselves in a long-term framework.

Also the issuance of a Eurobond type of bond with which it would borrow from the markets at an interest rate of around 3% to replenish its funding to the States with the difference in interest rate charges it would have to pay to the markets[123]. An

[123] Pâris, P. and Wyplosz, C. (2014) *PADRE - Politically Acceptable Debt: Restructuring in the Eurozone.* International Center for Monetary and Banking Studies (ICMB) Available at : https://cepr.org/sites/default/files/geneva_reports/GenevaP252.pdf (Accessed: 30 November 2021)

alternative approach has also been proposed by Sotiropoulos, Milios and Lapatsioras, namely for the ECB to buy all the debt of the Eurozone countries above 50% of GDP and convert it into zero coupon bonds. The countries are committed to repurchase it at 1% interest after it is reduced to 20% of GDP. The ECB again issues Eurobonds with a higher interest rate but the losses are gradually mitigated by the repurchase of the bonds and other structural measures[124] .However, there has not yet been any real discussion about adopting a Eurobond and the Covid-19 outbreak turned the attention from Debt to other urgent direction. The critical issue of debt and its servicing will return after the health crisis is over and will likely be worse given the fact of COVID – 19 economic consequences. The questions are many and above all it is unknown whether there is the intention from Germany in particular but also from France to have a generous cancellation of the debt of the weak and over-indebted, first and foremost, states of the Eurozone. But it is not enough.

The ECB, which will have to change monetary policy completely, will have to promote a Marshall-type financing plan with zero interest rates and long-term repayment with a growth clause in order to stimulate productive investment and cause the over-indebted economies to restart on the right footing in order to achieve a rate of growth, GDP growth with primary surpluses that will gradually start to pay off existing debts. Undoubtedly, this prospect is rather difficult to happen as a proper debt management in the EU and Eurozone framework requires a common monetary, fiscal and therefore political approach and therefore the transformation of the European Union or the Eurozone into a federal state. This is not an easy issue and there does not seem to be any intention on the part of the countries of the North after the propaganda they received about the 'lazy South' and certainly not on the part of the countries of the South which have felt the consequences of adopting the Euro especially after the incomplete response to the economic crisis and recession by the Eurozone institutions which informally invited the IMF to deal with the European financial crisis.

[124] Sotiropoulos, D.P., Milios, J. and Lapatsioras, S.(2014) *An Outline of a Progressive Resolution to the Euro-area Sovereign Debt Overhang. How a Five-year Suspension of the Debt Burden Could Overthrow Austerity.* Levy Economics Institute of Bard College. Available at : https://www.levyinstitute.org/publications/an-outline-of-a-progressive-resolution-to-the-euro-area-sovereign-debt-overhang

According to the Special Euro barometer (500 Report Future of Europe) , almost half (47%) of Europeans hold a positive image of the EU, while just 14% are negative, the remainder (39%) holding a neutral stance[125].

"If you owe the bank a hundred thousand dollars, the bank owns you. If you owe the bank a hundred million dollars, you own the bank."

There was at times a strong opposition and the proposal to support the other way because of the negotiating power of the increased debt and the unilateral suspension of payments by the country and the formal declaration of bankruptcy within the framework of the Eurozone. Such a suspension of payments was probably useless since the country would once again be dependent on the Euro and the ECB's funding and on the decisions of its institutions[126].

This perspective of the proposal could have had very significant effects on debt relief especially at the beginning of the crisis when the debt was under Greek Law and held by private parties, mostly private banks, and could have been a powerful leverage compared to now where over 70% of the debt is owned by European official creditors[127].

This proposal was and is being treated with strong catastrophism which is not proven by empirical evidence but only by hypothesis as there has never been a similar previous case of default and there is no legal procedure for withdrawal from the Eurozone. This alternative approach therefore supports the unilateral default by Greece without the agreement or approval of the creditors, which are now mainly the institutions of the Eurozone. Such an action would potentially lead to the country's expulsion from the Eurozone and would result in its destruction as its supporters claim, but they do not admit or guarantee based on the empirical evidence so far what the country's long-term prospects will be following the current model.

[125] European Union. Euro barometer (2021) *The Special EB500 "Future of Europe" (FoE).* Available at : https://europa.eu/eurobarometer/surveys/detail/2256

[126] Skaperds, S. (2011) *Seven Myths about the Greek Debt Crisis.* ResearchGate. Available at :https://www.researchgate.net/publication/254424792_Seven_Myths_about_the_Greek_Debt_Crisis

[127] Peterson Institute for International Economics (PIIE) 2018 . *How to Solve the Greek Debt Problem*. Policy Brief. Available at : https://www.piie.com/system/files/documents/pb18-10.pdf

The fact is that the chain reaction of Greece's expulsion from the Eurozone would not primarily benefit its creators as the indebted countries have mainly the burden of debt repayment to lose rather than gain anything in the future with the policy already applied without any intention of changing or modifying it in the light of the new data.

However, within the framework set by the treaties, such an action would not be possible without causing a rupture in the formal cohesion of the Eurozone. Within this framework, various views have been advocated, such as the expulsion of a country from the Eurozone but remaining in the European Union, the division of the Eurozone or the European Union into two parts on geographical or Economical criteria or perhaps into two separate groups led by Germany and France, on the basis of a hard or soft Euro or on the basis of inflation or debt. These divisions however, by definition, abolish the concept of the Union. The most heretical alternative approach, Grexit as it has been called, is the one that advocates the withdrawal of Greece mainly from the Eurozone and unilateral debt cancellation. Article 50 of the Lisbon Treaty provides for the withdrawal of a member state from the European Union in agreement with its partners on the terms of the process, as happened with Brexit, but the existing legal framework does not provide for withdrawal from the Eurozone[128].

Therefore, a declaration of unilateral cancellation of the debt that now belongs to European institutions would mean withdrawal from the Eurozone and possibly expulsion from the European Union as a means of pressure. The government could decide this by a majority of 3\5 or by holding a referendum and a first experience nevertheless existed under the Syriza government with the referendum despite the reversal of the result.

Nevertheless, the historical continuity of a State is a reason to regroup and implement new solutions whether the people will choose to live within the Union and the Eurozone or outside. Such an action, however, requires the active support of a determined civil society fighting to change its future far from any party nuance. The cases of Iceland and Hungary could serve as examples by analogy. One of the first actions should be the election of a transparent government that is a prerequisite for the

[128] The only possibilities without violating the Lisbon Treaty would be for a state to withdraw from the EU and then apply for reintegration or, if it wants to remain in the EU, to invoke the right of negative change of status from entering the Union by invoking the Vienna Treaty, which several countries have not signed.

proper implementation of this perspective and, together with the creation of an International Debt Audit Commission, will provide the necessary characteristic of legitimacy to the actions of a government that cares about international law but also maintains the right to fight for the survival as a nation.

This government should be clear in its aspirations and make it obvious to its interlocutors that it is prepared to go ahead with every measure and policy that will provide for the welfare of its citizens without equivocation. Also, the preparation of a plan B' , for the introduction of a new currency if needed is imperative and should include as far as possible the foreseen actions to stabilise the economy in line with international experience and the country's needs to adapt to the new circumstances. Investigation of the debt, with continuous and detailed disclosure of the details of the loans and information on their repayment to date, is a fundamental right of the borrower. The legislation of strict laws regarding the punishment of any culprits who acted in violation of position of authority in the conclusion of the loans and also against articles of the constitution is necessary for the proper achievement and justification of the movement and also as a goal of preventing similar phenomena in the future.

Declaring some loans as odious and illegal if recognised as such may lead to their cancellation, which will ease the burden of repayment and lead to balanced budgets in the future. These manageable surpluses could be used to stimulate demand for investment, business lending and public spending on development projects supporting the restart of the country's economy and the drive towards competitiveness and growth and exports.

A government that would proceed with the common good of its country and international law in mind would negotiate with creditors having the first and last word. Within the framework of the Union, the Member States, now holding most of the debt, would be led to new negotiations and new alliances and new ways of dealing with the debt. The creation of a debt fund or debt bank that would gradually absorb the loans by financing it proportionally based on the surpluses of the countries would be a principle of recycling the results to the economically weaker countries with large deficits.

The shock to the Eurozone would likely increase as although Greece's debt is only a small part of the overall European debt, the impact on other indebted countries would be inevitable. The issue however is not a sustainable public debt that is constantly increasing due to the cost of repayment by borrowing new loans with high interest from the financial markets, but the development and implementation of a long term programme for Country free of excessive debt[129]. Therefore summarising the proposed measures within the European Union:

- Accounting and analysis of the debt with immediate referral to justice of the wrongdoers.

- Immediate cancellation of the odious and illegal part of the debt.

- After the audit and determination of the debt, the immediate cancellation of bonds at twice their real value on the secondary market, and therefore the action should be immediate in time and catalytic, with proportionality from the surplus countries to the weakest and most indebted countries, so that there is a recycling of surpluses even if there is no federal structure as in the US context.

- A grace period of 10 years with gradual repayment over a 30-year period with a growth clause instead of a fixed interest rate.

The above model solution proposal is based on the debt cancellation proposed in 1953 for the public debt of Federal Germany in the London Agreement[130]. One should also not forget that the insistence on debt repayment through the practically impossible creation of surpluses by an indebted country is strongly reminiscent of the Treaty of Versailles.

Restarting the economy and assessing its potential would impose an interest rate that would be a percentage determined by GDP growth in conjunction with the growth clause given the servicing of the State's needs. The negotiation process should occur

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[129] Kazakis, D. (2011) *The Greek Pompeii: The chronicle of a foretold bankruptcy*. Athens: Pontiki publications.pp.75-80, 407- 410.

[130] The American, British and French allies decided to rapidly rebuild Germany by cancelling 62.6% of its debts and would fix the repayment of the remaining debt with a growth clause and other favourable arrangements such as a 0-5% interest rate cut, import substitution, resolution of creditor disputes in German courts, debt service of up to 5% of export earnings, repayment in national currency, free development aid of $1.5 billion. This policy came about in the context of a reshaping of US economic policy but also as a buffer against the then Soviet danger. In this context, Greece is the only country that has not even received the World War II war reparations from Germany as foreseen but only a small part of the compensation in 1960 for specific groups of victims. A committee of the Greek Parliament estimated the amount claimed for the atrocities and damages caused by Germany during the war at least 289 billion Euros including the forced occupation loan which the Bank of Greece was obliged to grant to the Central Bank of the German Reich for the costs of occupation of Greece.

on the reasonable possibilities of increasing taxes or imposing cuts or reductions in social spending, a specific tax on the export rate and in conclusion after the average welfare state has been met, and then the balance can be allocated to pay the interest payments.

According to Professor Andreades, in this way the State is not considered to be untrustworthy, but rather the intention to find proper ways of paying without undermining the rule of law and the welfare state is made pretty clear. Therefore, if revenue is less than expenditure, then a compromise is required. If the intention is not accepted, then bankruptcy with unilateral debt cancellation is on the table as a forced solution.

The former Prime Minister Andreas Papandreou rightly said in 1994, 'Either we wipe out the debt or the debt will wipe out the country' but eventually neither he nor the previous or the following governments have protected the country from the debt to this day.

In addition, the country could also invoke the "state of emergency'' and the Force Majeure principals due to the poverty and difficulty to meet the basic needs of its citizens according to international studies and force majeure after the outbreak of Covid-19 according to international law to stop the repayment of the debt[131]. As far as unilateral default is concerned, the most likely consequences for the country would be exclusion from the capital markets, but this would be short-lived as international experience shows. The main aim should be the productive reconstruction of the country and not re-borrowing and increasing the debt. Also, the reduction in trade credits by the lenders as a lever of pressure could be compensated for by granting state guarantees and by pursuing an internal development policy to promote self-sufficiency and the restart of the primary and secondary sector.

At this point, the provision of a new currency to go hand in hand with the old one for a certain period of time is needed, the state regulation through price caps and state regulation of the parity of the new currency rather than market regulation of the new currency must follow a specific plan to ensure that it proves stable enough to absorb the strong initial shocks. The management of the currency by the country itself

[131] Norton rose Fulbright (2020) *Q&A on COVID-19-related force majeure claims.* May 2020.Available at : https://www.nortonrosefulbright.com/en-gr/knowledge/publications/849d7568/q-and-a-on-covid-19-related-force-majeure-claims

according to its needs and its adaptation to international developments will soon lead to the stabilisation of the economy and the development and financing of productive investment and domestic demand in relation to the alignment of the country with the policies of Germany's needs. The issue of competitiveness at this stage could not be addressed without the monetary instrument of external devaluation, which is not available within the framework of the single currency[132].

The new government with the now nationalized banks and the state-owned Bank of Greece would proceed to control and regulate the movement of capital out of the country as well as guarantee deposits and savings so as not to cause a Bank Run. The debt as well as other bank assets and deposits would be translated into the new currency and therefore would be a major incentive to avoid encouraging the irrational and excessive devaluation of the new currency by the lending countries as a means of pressure .The devaluation of the new currency would be controlled by a determined government by enacting laws to combat speculation against the currency within and outside the country by setting buy-to-sell time limits to prevent speculation.

Currency control would be the concern of the State Bank of Greece through intervention and regulation[133].The control by the Bank of Greece of capital movement, the taxation of financial transactions and the time lock in the purchase and sale of stocks and bonds is necessary in order to prevent speculation especially in the early stages of stabilization of the economy. The exchange controls and deterrent taxation on luxury goods are necessary during this initial period of transition to the new currency and stabilisation of the economy.

A new Greek Government that will handle the control of the Greek economy, free of any Eurozone restrictions, will proceed with new alternative ways of borrowing from other Countries outside Europe on more favourable terms based on comparative advantages and ways such as clearing trade and unilateral repayment of the remaining debt in this way.Tourism would be significantly boosted by the depreciation of the currency and the setting of a new lighter tax policy on the islands in particular would boost the sector significantly. An alternative way of clearing can be the use of tourism

[132] Skaperds, S. (2011) *Seven Myths about the Greek Debt Crisis.* ResearchGate. Available at :https://www.researchgate.net/publication/254424792_Seven_Myths_about_the_Greek_Debt_Crisis
[133] Kazakis, D. (2011) *The Greek Pompeii: The chronicle of a foretold bankruptcy*. Athens: Pontiki publications.pp.420-423

by the state with parallel incentives instead of taxation and could enhance the country's prestige and help pay off the remaining debt.

Increasing imports of essentials would be done in the best interest of the country and any inflationary pressures would be addressed by increasing wages, subsidizing imports, with tax relief until equilibrium is restored. The adjustment of fiscal and monetary policy should be immediate and in line with new developments. Tackling tax evasion is a necessary condition for fairer taxation and avoiding the chronic problem of tax certainty for wage earners and pensioners with parallel tax cuts at higher tax brackets due to the expectation of a trickledown effect.

This alternative is not an easy proposition, it is a necessary solution. It is probably the only one left in order to confront the neoliberal policy of the Eurozone that is aimed at saving the euro and the financial system against the welfare of its citizens. Almost 12 years of recession and deterioration of regional economies are irrefutable proof. The country will continue to be European but will change the terms of its economic transactions. A possible exit from the Eurozone requires a change of course of the Greek economy with a strong government and an even stronger and more determined people ready to claim a better future by acquiring self-awareness through thorough criticism and by punishing and changing the old and bad habits and policies.

The country is at a turning point where it should reconsider, despite all the costs, the policies of the past that led it to economic disaster and the degradation of its prestige; it should adopt Realpolitik terms in all its policy areas from now on, free from ideological barriers of the past. This practice applies to the foreign policy of countries that care about their citizens, and are able to apply hard solutions when circumstances demand it. This means, in simple terms, that the country's general policy should follow the logic of full adaptation to the circumstances and problems that arise at any given time and should be based on practical objectives and real assessments of the given conditions and factors of reality.

The search for alliances outside the regulatory framework of the EU with countries such as China within the Belt and Road Initiative, Russia and possibly new European alliances should now be treated on a new basis in the context of Realpolitik. The geostrategic position of the country should be the axis of every policy and pursuit. The country's leading inter-bank position in the Balkans could be the trigger for a

Balkan sub-unification in the first stage with Greece in the leading position. The above prospects would make any scenario of geopolitical threats against Greece very difficult, unprofitable and risky from the outset.

Greece is a European - Balkan country and in the course of history the Balkan states shared a common past, despite the imposed ideological divide of the last decades. The present, numbed by the economic crisis and the Covid 19, must give way to a common future with jointly defined goals and perspectives in all areas, starting with the economic sector and the strengthening of practices such as clearing in their international trade transactions. The strengthening of Greece's political position in the Balkans will guarantee stability in the region and enhance its prestige and role in the new era.

The identification, mapping and exploitation of the country's wealth-producing energy resources on the mainland, in the Eastern Mediterranean and in the Aegean, as well as its raw materials with co-development, in the context of Realpolitik, with countries that have the know-how, would lead to the increase in the country's growth with the aim of developing the primary and secondary sectors without the need for new loans ever again[134].

In conclusion, in the case of Greece the accusations that 'others', the Great powers, are always to blame for the country's disastrous course, although are largely correct, do not reduce citizens' responsibilities in relation to the country's plight. The incorrect assessment of the facts, the lack of effective self-criticism and the lack of accountability leads to the repetition of the same wrong political choices, the passive acceptance of international social and political developments and therefore to a non-prosperous future.

The 'others', the Great powers, are simply fighting for their own national economic interest under the guidance of their own ruling class in terms of Realpolitik; they are not obliged to care about the future of their competitors. The Greek people are not without responsibility, especially in recent decades, where there is an unlimited capacity of information.

[134] Batsis, D. (2004) *The Heavy Industry in Greece*.6th ed. Athens: Kedros Publishing

As Cornelius Castoriadis pointed out: " Can we claim that this was all imposed on the Greek people in the absence of the Greek people? Can we say that the Greek people did not understand what it was doing? What it wanted? What it was voting for? What it was prepared to put up with?[135]

If that's the case, then such a people would be an infant. But if it is an infant, then let's not talk of democracy. If the Greek people are not responsible for its history, then let's appoint it a guardian. But I say that the Greek people, like any people, are responsible for its history, and are accordingly also responsible for the situation it finds itself in today...''[136]

Whether or not the Greek people are going to fight and change the future of their Country remains to be seen but the historical and political responsibility of Greece's fate is clearly in their hands in these turbulent times.

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135 Nicholas, N. (2017) Four Romaic names for Greece. Ἡλληνιστεύκοντος - Set Union of Greek and Linguistics. Available at : https://hellenisteukontos.opoudjis.net/

136 Castoriadis, C. (2017) *We are responsible for our history. Interviews, translations. Editor:* Papadopoulou, T. Athens: Kritiki Publications. Excerpt of the same interview: '' The late Giorgos Kartalis joked to me in Paris in 1956: "Cornelius, you forget that Greece never went through a French Revolution." And true enough, there has never been a time when the people have demanded its rights, even at a rudimentary level. And the responsibility I've referred to is expressed through the irresponsibility of the proverbial expression:
- "Am I going to be the one to fix The Romaic?... ''
- "Well yes you are, sir. You are going to be the one to fix The Romaic, in the domain and sector you find yourself in…''

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