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Paper No. 158

Historical Cycles of the Economy of Modern Greece from 1821 to the Present

George Alogoskoufis

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

April 2021

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Historical Cycles of the Economy of Modern Greece from 1821 to the Present

George Alogoskoufis*

ABSTRACT

This paper reviews and interprets the history of the economy of modern Greece, from the eve of the war for independence in 1821 to the present day. It identifies three major historical cycles: First, the cycle of state and nation building, 1821-1898, second, the cycle of national expansion and consolidation, 1899-1949, and third, the post-1950 cycle of economic and social development. During these two hundred years, the country and the economy have been radically transformed. Compared to the first Greek state, Greece managed to almost triple its national territory, to increase its population by almost 15 times and to increase its real GDP per capita by another 15 times. From the margins of south-eastern Europe, it has moved to the core of today's European Union. The paper focuses on the main determinants of economic performance during these cycles, with particular emphasis on the role and interactions of social and economic conditions, ideas, institutions and geopolitics. During the first two cycles, the economy underperformed, as state building and the pursuit of the 'great idea' were the top national priorities. Despite the early introduction of appropriate economic institutions, fiscal and monetary instability prevailed in the context of a relatively stagnant economy, due to wars, internal conflicts and the international environment. The economy and the welfare state only became a top priority during the third cycle, when a number of domestic and international factors contributed to economic and social development. Greece seems to have largely achieved many of its national goals, having consolidated both its borders and democratic institutions and become a relatively prosperous country in the core of the European union, despite the alternation of triumphs and disasters and the frequent occurrence of wars and internal conflicts, debt crises, 'defaults' or economic depressions. Yet many problems remain and the challenge for the future is to focus on reforms that will ensure even higher security and prosperity for the future generations of Greeks.

JEL Classification: N1, N2, N4

Keywords: Modern Greece, economic history, institutions, economic growth, fiscal policy, monetary policy

Acknowledgements: This paper is based on lectures for a course on the Economic History of Greece, taught at the AUEB since October 2019. I wish to thank the students of this course for providing the inspiration for this research, as well as Chrysafis Iordanoglou, Kostas Kostis, Sophia Lazaretou and Ioanna Pepelasi for helpful discussions and comments.

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Introduction

The economy of modern Greece has a history of about two centuries. During these two hundred years, the country and the economy have been radically transformed. Greece managed to almost triple its national territory, in relation to the first Greek state, to increase its population by almost 15 times and to increase its real GDP per capita by another 15 times. It has managed to move from the margins of south-eastern Europe to the core of today's European Union.

In this paper we review, analyse and interpret the history of the economy of modern Greece, from the eve of the struggle for independence in 1821 to the present day. We focus on the main determinants of its transformations and growth, with particular emphasis on the role and interactions of the underlying social and economic structure, national, social and economic ideas, institutions and policies, as well as the effects of international and geopolitical developments.[2]

The evolution of the Greek state and its economy is described and analysed in the context of three major historical cycles.

The first is the cycle of *state and nation building*. This historical cycle covers the period from the struggle for independence and the founding of the first Greek state to the establishment of the International Financial Audit Commission in 1898. This cycle occupies almost the entire 19th century, after the declaration of the war of Greek independence in 1821 and is characterised by three central features: First, the creation and international recognition of the first Greek state, second, the consolidation of Greece's national identity and the adoption of the 'great idea', and third, the gradual emergence of constitutional and democratic institutions. This cycle is characterised by acute economic problems which led to three episodes of excessive external borrowing and 'default', significant fiscal and monetary instability and economic stagnation. The end of this cycle coincides with the establishment of an international commission which oversaw the stabilisation of Greece's currency, its public finances and the economy in general. The stabilisation proved critical for the preparation of Greece for the next historical cycle.

[2] There is a large selection of relatively broad recent overviews of the political and economic history of modern Greece, both in English and Greek. For general overviews in English see Beaton (2019), Clogg (1992), Kalyvas (2015), Koliopoulos and Veremis (2010) and Kostis (2018). Dakin (1972) surveys the period from the late 18th to the early 20th century. For a neo-marxist perspective up to the mid-1970s, see Mouzelis (1978). Most of the above have been translated or written originally in Greek. For additional overviews in Greek see Dertilis (2004, 2020), Fragiadis (2007) and Patronis (2005). Alogoskoufis and Lazaretou (2002) focus on the monetary history of modern Greece up to euro area entry. Kostis and Petmezas (2006) contain a number of analytical studies that focus on the 19th century, while Kalafatis and Prontzas (2011) contains a selection of papers on a wide range of economic and institutional aspects. Most of the overviews have been written by historians or political scientists, and, as a result, the analytical focus is mostly on politics and geopolitics. However, contributions by economists are gradually rising, allowing for a greater analytical focus on the economic aspects of Greece's history.

The second is the cycle on *national expansion and consolidation*. It covers the first half of the 20th century, from the period of economic stabilisation after the policies imposed by the International Financial Audit Commission in 1898 to the end of the civil war in 1949. The main positive feature of this cycle is the implementation of a large part of the 'great idea', with a large territorial and population expansion of the Greek state. This occurred following the Balkan Wars, World War I, the Asia Minor campaign and disaster and the exchange of populations that followed. This cycle is also characterised by persistent political, economic and social instability due to continuous wars and internal conflicts and significant social and economic transformations. The end of this cycle coincides with the end of a major civil war, the consolidation of the borders and population of modern Greece and the integration of Greece into the 'western alliance', something that proved critical during the historical cycle that followed.

The third is the cycle of *economic and social development*. This historical cycle covers the second half of the 20th century, after the end of the civil war in 1949 and lasts until today. Its three key features have been the growth 'miracle' of the 1953-1973 period, accompanied by unprecedented fiscal and monetary stability, the democratic and social 'miracle' of the period 1974-2020, following the restoration of democracy in 1974 and the national 'reconciliation', and, finally, the accession of Greece to the European Union in 1981 and the gradual adoption of its institutions and policies.

The approach to such a large and multidimensional issue as the economic history of a national state cannot be merely descriptive. It must be mainly analytical and interpretive. The aim of this paper is the identification and analysis of the deeper factors that have determined and, to some extent, continue to determine the historical course of the Greek state and its economy.

To this end, the historical cycles of the Greek economy are interpreted and analysed on the basis of the dynamic interdependence of four central factors: the underlying *economic and social conditions* of the country, the prevalent national, social and political *ideas*, the nature and quality of domestic *institutions* and, finally, *geopolitical and international factors*.

It is through the dynamic interdependence of such domestic and international factors that national priorities and policies are determined and implemented. The underlying economic and social conditions, ideas and institutions clearly contribute to national, social, political and economic developments, as they help determine the nature and effectiveness of national pursuits and policies. On the other hand, such developments in turn lead to adaptations of the economic and social conditions, ideas and the institutions themselves. Finally, geopolitics and a country's integration into the international system of governance and defence and the international economic and monetary system are crucial, especially for a small country. Appropriate alliances and the extent of its participation in international institutions, gives a small country extra leverage and facilitates the fulfilment of its priorities. It also determines the extent to which it can get help from abroad if it needs to.

Making good use of such opportunities can be helpful but overextending oneself can sometimes have extremely negative consequences. On the other hand, success breeds success. Successful policies give a country extra leverage in forming international alliances and participating in the international system, which in turn helps in creating the conditions for further success.

Thus, the dynamic interdependence of domestic and international factors is very important for the understanding of the course and the transformations of the Greek economy, as well as for the understanding of the process of economic growth, the role of economic policy and fiscal and monetary stability and opportunities and constraints arising from international developments.

These factors are also very important for planning for the future, and in particular with regard to the institutional and economic reforms required in today's Greece, especially after the two major recent economic crises of 2010 and 2020.

The rest of the paper is organised as follows: In section I, we present a bird's eye view of the evolution of the Greek economy from the war of independence to the Covid-19 crisis, in the context of the three major historical cycles that we have identified. In sections II, III and IV we focus on the evolution of political, institutional, geopolitical and economic developments during each of the three major historical cycles. In section V we investigate and analyse the role of the interdependence of economic and social conditions, ideas, institutions, and geopolitics in the determination of national and economic developments in Greece. The last section sums up the conclusions.

I The Major Historical Cycles of Modern Greece

As we have already mentioned, this paper is based on the identification of three major historical cycles in the evolution of the Greek state and its economy.

The first is the 1828-1898 cycle of state and nation building. This cycle also saw the evolution of Greece's national identity, the 'great idea' and the development of constitutional and democratic institutions. However, it was also a period of economic instability and stagnation. The second cycle was the 1899-1949 cycle of national expansion and consolidation. This was a cycle dominated by wars, internal conflicts and alternating national triumphs and disasters. Despite the economic instability and the long inflationary episodes, economic growth in peacetime was slightly higher than in the previous cycle. The third cycle is the post-1950 cycle of economic and social development. It was characterised by a long initial period of rapid economic growth, which, despite the subsequent economic slowdown, fundamentally transformed the Greek economy and society. It was a cycle that also

led to the consolidation of Greece's democracy and its social structure, as well as its participation in the European Union.[3]

In Figure 1, these three historical cycles are related to the course of the economy of modern Greece, as described by the evolution of real GDP per capita from 1833 to 2020. Figure 1 also presents some of the most important political, economic and international events which were critical for the course of the Greek state and the Greek economy.[4]

The first historical cycle covers the period from the foundation of the Greek state until the imposition of the International Financial Audit Commission in 1898. This period occupies almost the entire 19th century following the Greek war of independence.

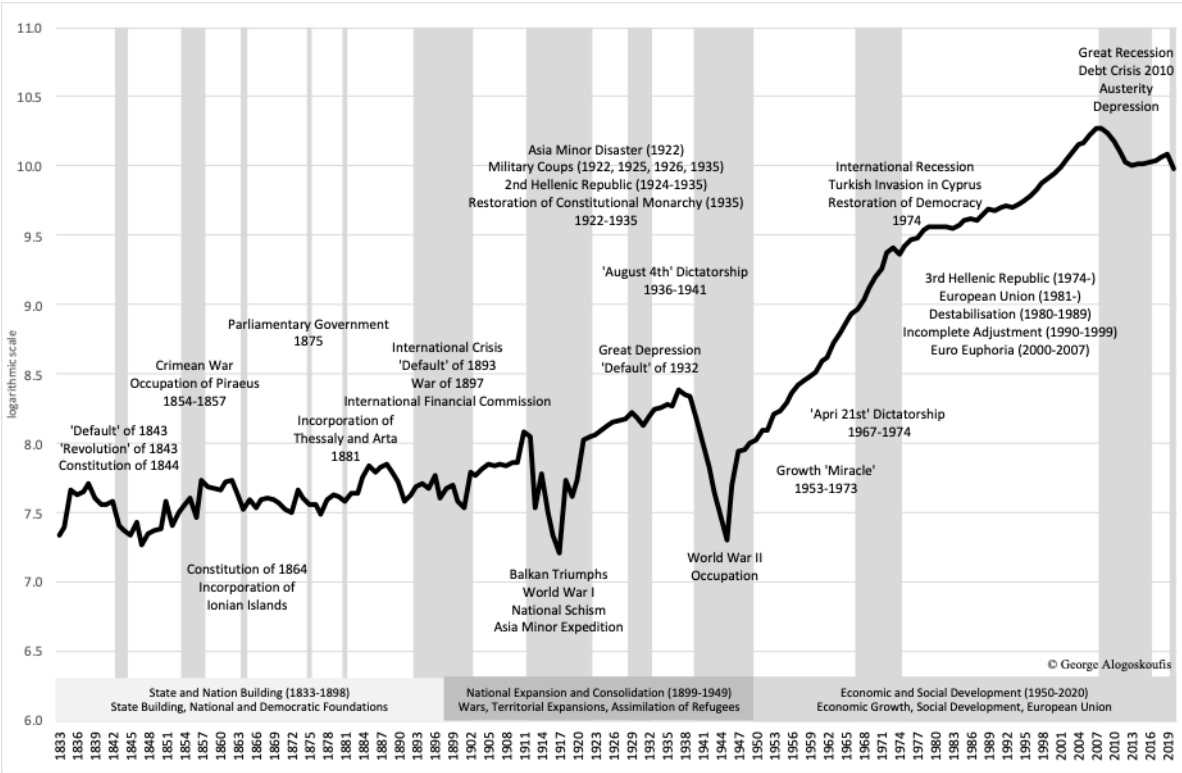
Three are the key characteristics of this historical cycle: First, the consolidation of Greece's national identity, through the cultural connection of modern Greece with its ancient and byzantine past. This led to the adoption of the 'great idea', the aim of expanding the borders of the Greek state to include the large Greek-speaking populations that had originally remained under Ottoman rule. Second, the efforts to establish an appropriate set of state institutions, a constitution and a democratic political system, based on the principles of the enlightenment. Third, the severe lack of the economic resources with which to pursue the other two aims, which led to cycles of external borrowing and 'default', fiscal and monetary instability and economic stagnation.

Following the war of independence and the initial establishment of the Greek state under Governor Kapodistrias (1828-1831), this cycle is characterised by two distinct political phases: The period of absolute monarchy, under King Otto (1833-1862) and the period of parliamentary monarchy, under King George I (1863-1913).

[3] Kalyvas (2015) distinguishes between seven boom, bust and bailout cycles, while Dertilis (2016) identifies seven wars, four civil wars and seven 'defaults'. My identification of the three major historical cycles is based on the great national achievements achieved in each of them, i.e. first, state and nation building, second, the expansion and consolidation of the Greek state, and, third, its economic and social development. Each of these cycles also included a number of negative aspects, but Greece seems to have achieved its major goals in each of these historical cycles. Many of the characteristics of the major historical cycles identified here are also present in the seven cycles identified by Kalyvas and in the analysis of wars, civil wars and 'defaults' of Dertilis.

[4] The source for real per capita GDP is the Maddison project database. See Bolt and van Zanden (2020). The estimates for the period 1833-1939 are based on Kostelenos et al (2007).

Figure 1
Historical Cycles and the Evolution of Real GDP per Capita in Modern Greece



Source: Maddison Project and European Commission. Real GDP per capita is measured in PPP adjusted US dollars, at 2011 prices and is presented in a logarithmic scale.

During the first phase the focus was on state building, through the adoption of institutions from western and central Europe, the consolidation of the Greek national identity on the basis of the connection with Greece's ancient and byzantine past, and the adoption, but initially futile pursuit, of the 'great idea'. This phase is characterised by frequent revolts against a well-meaning but ineffective absolute monarch, King Otto of Bavaria. Otto had been appointed by the 'Protecting Powers' of Britain, France and Russia. These powers had contributed decisively to Greek independence. Because of his ineffective and autocratic governance, as well as because of the severe economic problems faced by Greece, King Otto managed to alienate both the 'Protecting Powers' and the majority of the Greeks, and, despite granting a constitution and a democratically elected parliament and senate in 1844, he was finally forced into exile.

The second phase is characterised by the development of democratic institutions, in the form of a parliamentary monarchy, the first territorial expansions of the Greek state and significant administrative and economic reforms. Key characteristics of this period are the introduction of the more liberal Constitution of 1864, following the ascension to the throne of King George I, a young Danish prince, the establishment of a parliamentary democracy in 1875, the annexation of the Ionian Islands, Thessaly

and the region of Arta, administrative, military and economic reforms and improvements in the transport infrastructure.

For the full duration of this cycle, Greece operated under the influence of the three 'Protecting Powers'. These powers, and especially Britain, played a decisive role in almost every aspect of the national, political and economic developments in Greece until the early 1920s, and frequently intervened in the internal affairs of the Greek state.[5]

Greece was a predominantly low-productivity agricultural economy, without significant natural resources and with major fiscal problems, due to the need for high defence spending and limited tax revenues. Despite capital inflows from the Greeks of the diaspora, which helped finance essential imports of grain and manufactures, high domestic and foreign borrowing and Greece's difficulties in servicing its national debt led to long periods of monetary instability and three painful international 'defaults' in 1826, 1843 and 1893. The transformation of the economy was particularly slow and the rate of economic growth particularly low. The average annual growth rate of real per capita GDP during this cycle remained at around 1%, but it displayed significant variability.[6]

However, despite its grave economic difficulties, Greece managed to achieve an important part of its national goals during this cycle. State building and the consolidation of its national identity, a significant role for parliament and a first expansion of its borders.

The second cycle covers the first half of the 20th century, from the stabilisation of the economy through the policies imposed by the International Financial Audit Commission in 1898 until the end of the Greek civil war in 1949. This historical cycle was a cycle of major wars and internal conflicts but also significant national and economic transformations such as the expansion and consolidation of Greece's borders and population.

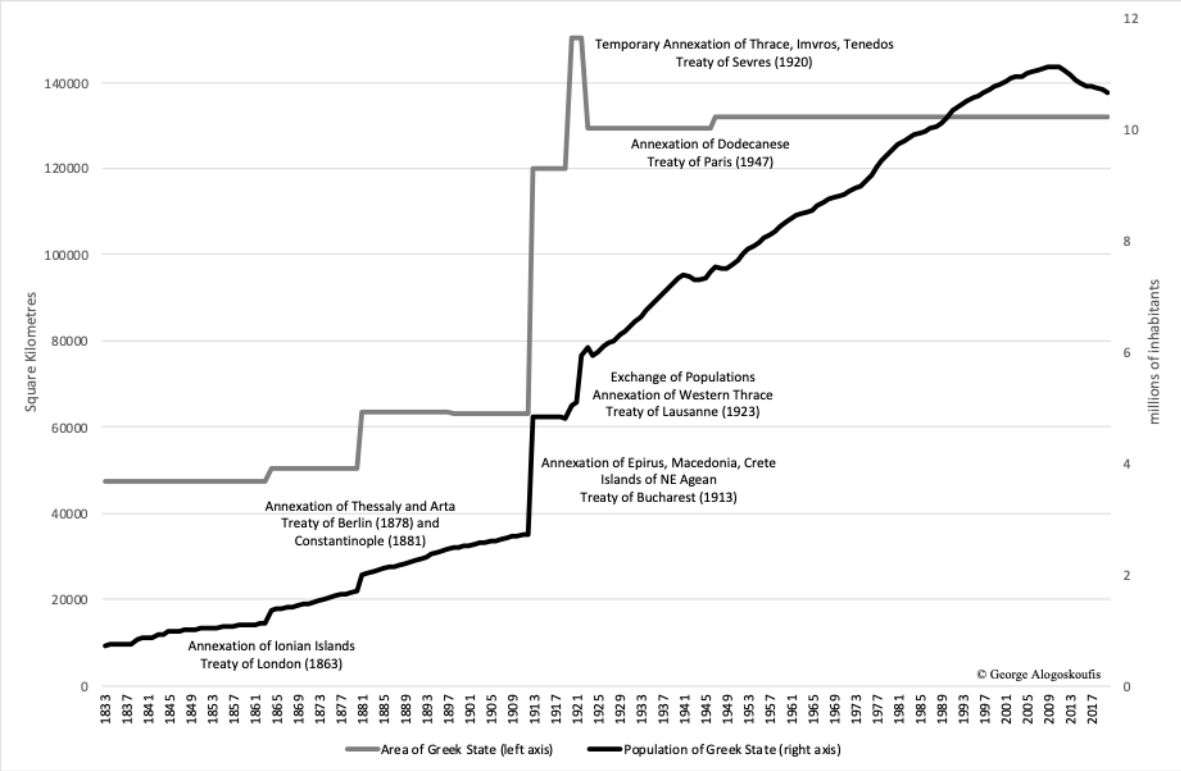
There are three important national and economic features in this historical cycle. First, the implementation of a large part of the 'great idea', with the significant territorial and population expansions of the Greek state, second, the persistent political and monetary instability due to the wars and the internal conflicts, and third, the significant social and economic transformations following the integration of new territories and populations.

This dense historical cycle includes the economic stabilisation of the first decade of the 20th century, the Balkan wars and the subsequent great territorial and population expansion, World War I, the national 'schism' of 1915-1916, the Asia

[5] We shall examine the role of the 'Protecting Powers' in more detail in sections II and V.

[6] In fact, based on the data of the Maddison project, the average annual growth rate of real per capita GDP was 0.94%, with a standard error of estimate of 0.93%. Hence, growth in real per capita GDP was not statistically significant at conventional significance levels. One cannot thus reject the hypothesis that this was a period of economic instability and stagnation.

Figure 2
Expansions of the Area and Population of the Greek State, 1833-2020



Source: Hellenic Statistical Authority

Minor campaign and disaster, the revival of the national schism in the early 1920s, the integration of the refugees from Asia Minor and elsewhere, World War II, and the disasters of occupation and the Greek civil war.

Despite the wars, the internal conflicts and the sequence of triumphs and disasters, this was not an entirely negative historical cycle. It led to the significant expansion and consolidation of Greece's borders, a large expansion of its population and a significant transformation of the Greek economy. However, towards the end of this cycle, the Greek economy was devastated, and Greek society was again split. At the end of this cycle, Greece became part of the 'Western Alliance' that emerged during the first stages of the 'Cold War', under the leadership of the USA.

The extent of the implementation of the 'great idea' during this cycle is demonstrated in Figure 2, which depicts the expansions of the area and population of modern Greece. The largest area and population expansion occurred after the Balkan wars, when the area covered by the Greek state almost doubled, from approximately 63 thousand to 120 thousand square kilometres, through the annexation of a large part of Epirus and Macedonia, Crete and the islands of the North-eastern Aegean. The population of Greece increased by almost 70%, from approximately 2.8 million to 4.8 million inhabitants. Following the Asia Minor disaster and the Treaty of Lausanne, the area of Western Thrace was also annexed by Greece, while the population exchange envisaged in the Treaty meant a net

addition of another 800 thousand refugees. The population exchange with Turkey meant that at least 1.6 million people, 1,2 million Greeks from Asia Minor, Eastern Thrace, the Pontic Alps and the Caucasus, and 400,000 Muslims from Greece, were forcibly made refugees and moved from their homelands. This was the de facto end of the pursuit of the 'great idea', although its formal end came about with the annexation of the Dodecanese in 1947 and the independence of Cyprus in 1960.

This historical cycle can be divided into two political and economic phases as well, one before and one after the Asia Minor disaster of 1922. The first phase is marked by the implementation of a large part of the 'great idea', while in the second phase, great emphasis was placed on the integration of the large inflow of refugees and on economic stabilisation and recovery. During this second phase, Greece experienced a fourth sovereign debt 'default' in 1932. This came about as a result of the rise in external borrowing since 1926, the adoption of the gold-exchange standard of the interwar period in 1928, and the severity of the post-1929 depression of the international economy.

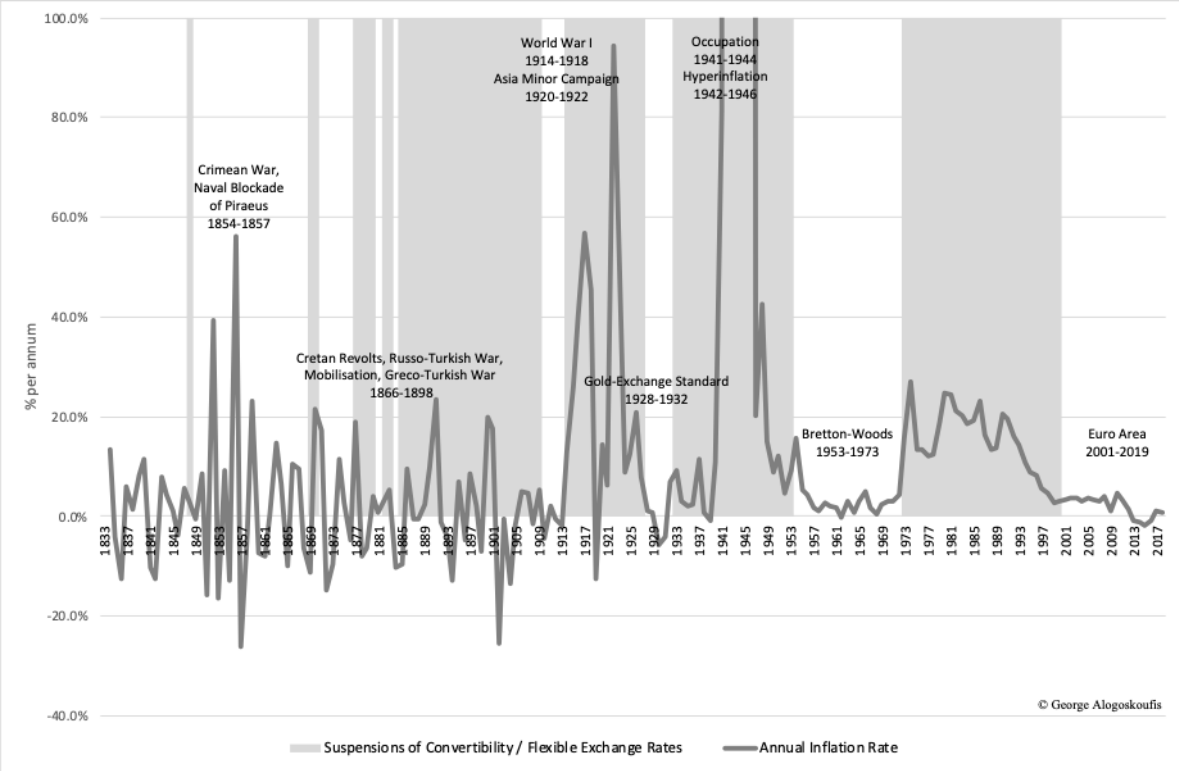
This cycle was also characterised by significant fiscal and monetary instability, which led to the most serious and persistent rises in inflation in the history of modern Greece. The excessive monetary expansions used to finance the increases of the military expenditures during World War I and the Asia Minor campaign led to sustained increases in inflation. Yet the worst episode was the hyperinflation created during the occupation of Greece in 1941-1944. This led to a total collapse of the monetary system and a huge redistribution of income and wealth.

The evolution and fluctuations of inflation in modern Greece is depicted in Figure 3. During the first historical cycle, 1833-1898, fluctuations in inflation were significant, but periods of high inflation were short-lived and were usually followed by periods of equally sharp disinflation. The most serious inflationary episode was associated with the naval blockade of Piraeus during 1854-1857, where it peaked at 56%. Even in periods of suspensions of the convertibility of the drachma and temporary monetary expansions because of wars, inflation seldom exceeded 20%, and was usually followed by an equally sharp disinflation. As a result, the average inflation rate during 1833-1898 was only about 2% per annum.

Since the outbreak of World War I inflationary episodes have been more severe and more persistent. Annual inflation rose to 56,6% in 1917, during Greece's participation in World War I and peaked at 94% in 1922, the year of the Asia Minor disaster. During World War II, the occupation and its aftermath, Greece experienced five years of hyperinflation. Even if one were to ignore the period of hyperinflation during the triple occupation of 1941-1944 and the subsequent civil war of 1944-1949, average annual inflation during the 1899-1939 period was slightly in excess of 10%, five times higher than during the previous historical cycle.

Despite the large, but temporary, economic and monetary collapses caused by the Balkan wars, World War I and World War II and the occupation, in this second

Figure 3
The Evolution of Inflation in Modern Greece, 1833-2020



Source: Kostelenos et al (2007), Lazaretou (2014) and OECD Data Bank. Before 1915 the rate of inflation is based on the GDP deflator, while after 1915 it is based on the Consumer Price Index.

historical cycle, there was an acceleration of both the transformation of the Greek economy and the rate of economic growth. For the period up to the occupation of 1941-1944, the average annual growth rate of real GDP per capita almost tripled compared to the previous cycle, to 2,9%, despite the wars, the internal conflicts and the political and economic instability that prevailed for long periods. Yet, because of the occupation and the civil war, the Greek economy was devastated at the end of this historical cycle, and in need of a total reconstruction.[7]

The third major historical cycle started in 1950 and lasts until today. Its three main features are the growth 'miracle' of 1953-73, followed by a significant economic slowdown, the democratic and social 'miracle' since the restoration of democracy in 1974, and full participation in the European Union since 1981.

This cycle consists of two phases as well. In the first phase, between 1950 and 1973, this historical cycle is characterised by a relatively authoritarian political regime, put in place after the end of the civil war, but also the successful reconstruction and long period of high economic growth, in conditions of unprecedented fiscal and monetary stability. An important characteristic of this period was the incorporation of Greece

[7] Again, because of the high variability of growth rates, the average growth rate for 1899-1939 was not statistically significant at conventional significance levels. Its standard error of estimate was 2.6%. The probability of positive growth was about 72%, versus 58% in the 1833-1898 period.

into the 'Western Alliance' and its full participation in all the 'western' political, economic and defence institutions.

During this phase Greece was a constitutional monarchy. A new constitution was approved by a constitutional assembly in 1952 and the mandate was extended to women in the same year, for the first time in Greece's history. The political parties represented the whole political spectrum from right to left, but a relatively large percentage of Greek supporters of the left, which was defeated in the civil war, faced extreme negative discrimination. The Communist Party of Greece was not allowed to operate and its sympathisers, real or suspected, were ostracised and persecuted. Furthermore, on April 21, 1967, there was a military coup, which took place ahead of the planned elections, that resulted in a harsh seven-year military dictatorship, the longest in Greece's history.

During this phase, characterised by democratic shortcomings but also a consistent focus on the goal of economic growth, Greece experienced an economic 'miracle'. The average annual growth rate of real GDP per capita more than tripled to around 6%, inflation remained particularly low by the international standards of the period and there were no balance of payments or external debt crises. This is clearly demonstrated in Figures 1 and 3.

The second phase of this historical cycle began with the restoration of democracy in 1974 and continues to this day. Its main features are the consolidation of democracy, through the most liberal democratic regime in the political history of modern Greece, the pursuit of social goals, through a more equitable distribution of income and wealth and the creation of a welfare state, and the accession of Greece to the European Union. However, this second phase has been associated with a significant deterioration in Greece's economic performance, as demonstrated in Figures 1 and 3. The average annual growth rate of real GDP per capita fell back to around 2%, while, before euro area accession, there was a long period of fiscal and monetary instability and persistently high inflation. Between 1973 and 1993 average annual inflation rose to 18%, as opposed to only 3.5% in the 1953-1973 period. After euro area accession, inflation has been tackled, but persistent fiscal and external imbalances led to a major external debt crisis in 2010 and an unprecedented economic depression, perhaps the deepest and longest peacetime depression in the history of modern Greece.

In the next three sections we shall examine these three major historical cycles in greater detail.

II Nation Building, the 'Great Idea' and Economic Instability and Stagnation, 1821-1898

We begin with a brief description of the evolution of the state and the economy of modern Greece during the first great historical cycle, emphasising the evolution and influence of ideas, political and economic institutions and international and geopolitical developments.

As we have already mentioned, there are three main characteristics of this cycle. First, the consolidation of the national identity, through the cultural connection of modern Greece with its ancient and byzantine past. This included the adoption of the 'great idea', the aim of extending the borders of the Greek state to include the Greek-speaking Christian populations that remained under Ottoman rule. Second, the efforts to form a national state apparatus that would guarantee property rights and coordinate social and economic relations and also operate democratically, based on the principles of the enlightenment. Third, the severe lack of the economic resources with which to pursue the other two aims, which led to cycles of external borrowing and 'default', fiscal and monetary instability and economic stagnation. The transformation of the economy was particularly slow and the rate of economic growth particularly low. The average annual growth rate of real GDP per capita hovered around 1%.

However, despite its severe economic problems, Greece managed to achieve a significant part of its other national goals. The consolidation of the national identity, increasingly sophisticated and democratic state and political institutions and a first expansion of the borders of the new state.

II.1 The Re-awakening of the Greek National Conscience and the War of Independence

The Greek state was created as a result of the war for independence of 1821. The war was largely a consequence of the awakening of the national consciousness of the enslaved Greeks, due to the economic and social transformation of the declining Ottoman empire during the 18th century. These developments led to the creation of initially small but dynamic class of prosperous and cosmopolitan Greeks, who promoted the re-awakening of the Greek national conscience and soon started to seek political and economic independence from the Ottomans.

These pioneers included the Phanariots, who acquired power by acting as diplomats and interpreters to the Ottoman Porte, but, more importantly, an entrepreneurial widely dispersed and prosperous mercantile class, with activities both inside and beyond the Ottoman Empire. For half a century before the Greek revolution, merchants and seafarers of Greek origin took advantage of the continental blockade

imposed by the British during the French revolution and the Napoleonic wars, and came to dominate the international trade of the Ottoman empire, becoming extremely prosperous. By the end of the 18th century they had established dynamic communities throughout the Mediterranean, the Balkans, central Europe and southern Russia. They increasingly came to resent the arbitrariness and uncertainty of life in the Ottoman Empire, they were exposed to the ideas of the European Enlightenment and supported an intellectual revival among Greeks of the diaspora. This helped re-awaken the dormant national conscience of the Greeks, through the creation of schools and libraries and the publication of pamphlets and books in the Greek language. It was through members of this mercantile class that the 'Friendly Society' came to be. This was a secret organisation founded in Odessa in 1814, that played an important role in preparing the conditions for the war of independence. The aspirations of these pioneers of the Greek national movement spread among the Greek populations of the Ottoman Empire and took shape with the revolution of 1821, aiming at creating an independent Greek state.

The war of independence started in the Danubian Principalities, but it was soon put down by the Ottomans. It was more successful in the Peloponnese, Central Greece and the Cyclades, where it soon assumed the form of an all-out revolt. Central to its success were the tactics and the know-how of the chieftains and brigands, the captains of the merchant marine, the mobilisation of large numbers of ordinary farmers and islanders and the nautical resources of the islands, mainly Hydra, Spetses and Psara. However, initial successes were followed by infighting, which almost caused the Greek struggle for independence to collapse. Nevertheless, the prolongation of the struggle, against formidable odds and an Ottoman counter-offensive, allowed three of the great powers of the time, Britain, France and Russia, to intervene in support of the Greeks.

The great powers were initially aligned in opposition to the Greek war of independence, in accordance with the policy of the Holy Alliance formed after the end of the Napoleonic Wars. Yet, the three powers of Britain, France and Russia eventually supported the Greek revolution, collectively seeking to weaken the Ottoman empire, each for their own geopolitical reasons. A significant factor in the intervention of the three powers also was the spread of philhellenism which affected public opinion, especially in Britain and France. Philhellenism was initially based on the Greek origin of much of the West's classical heritage and helped generate tremendous sympathy for the Greek cause throughout Europe.

The eventual intervention of the three powers played a decisive role in the creation of the independent Greek state, which initially occupied only a small part of the area of today's Greece. With the naval battle of Navarino in 1827, in which they annihilated the Ottoman fleet, and with their subsequent military and political interventions, the three powers helped secure and consolidate Greek independence. Since then, they functioned as 'Protecting Powers' of the Greek state for many years,

often intervening both in Greece's frequent conflicts with the Ottoman empire and in the internal affairs of the Greek state.

II.2 Kapodistrias and the Creation of the Greek State

The first Governor of Greece was Ioannis Kapodistrias, a prominent Greek of the diaspora, who was selected as Governor of Greece on March 30, 1827 by the 3rd National Assembly of Troizina. During his short tenure, he insisted on the continuation of the armed struggle, until the borders of the new Greek state were finally recognised by the Great Powers. He also engaged in state building, through the establishment of the first legal, administrative, military, financial and educational institutions. However, the authoritarian way in which he ruled led to opposition and conflicts both internally and with the Protecting Powers, especially Britain, who never warmed-up to him, suspecting him of promoting the interests of Russia.[8]

Kapodistrias was assassinated in Nafplion, the first capital of the Greek state, on October 9, 1831.

The economy of the newly formed Greek state was mainly agricultural, while there was a relatively small sector involved in trading and shipping. The main trading centres and important ports of the Ottoman empire, even those with large Greek communities, were outside the borders of the original Greek state. The industrial sector was almost non-existent, primitive and localised. Local economies were largely self-sufficient, especially in the mountains.

The new state, characterised by the lack of even essential economic resources, was from the beginning unable to service the onerous loans that had been concluded in London during the war of independence (1824-1825). The almost immediate 'default' of the provisional administration of the Greek revolutionaries in 1826 tarnished the credibility of the Greek state in the international capital markets for many years. For a long time, the only way in which the Greek state could secure new international loans was with the guarantee of the Protecting Powers, as happened in 1833.

From the very beginning Greece tried to adopt the international monetary system of the time, the silver standard, initially through the creation of the *phoenix*, a silver coin. However, due to financial and budgetary difficulties, metallic convertibility was quickly abandoned, and the phoenix circulated mainly in the form of non-convertible currency notes.

The Greek state was finally recognised internationally as an independent state under the name 'Kingdom of Greece' in 1830, with the Treaty of London, and included the Peloponnese, much of Central Greece and the Cyclades.[9]

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[8] Kapodistrias had previously served as one of the Foreign Ministers of the Tsar, Alexander I of Russia.

[9] Greece was initially to be an autonomous state under Ottoman suzerainty, but by 1832, in the Treaty of Constantinople, it was recognised as a fully independent kingdom by the Ottomans as well.

After the assassination of Kapodistrias and the political instability that followed, the Protecting Powers finally selected Otto, son of Louis I of Bavaria and a minor, as the first King of Hellas (Greece), investing him with absolute monarchic powers.

When Otto arrived in Greece on February 6, 1833, accompanied by the three members of the regency, Armansperg, Maurer and Heideck, he found the country in almost complete chaos. The economic and fiscal situation was also hopeless.

II.3 State Building under the Regency and the Monarchy

The regency, which ruled until the coming of age of Otto in 1835, promoted the internal re-organisation of the state according to Bavarian standards, which were themselves based on the centralised French administrative system. Reforms were introduced in the country's primitive administrative and fiscal institutions, justice, education and the army. In addition, the regency unilaterally decided and imposed the autonomy of the Church of Greece from the Patriarch of Constantinople, creating a rift that took years to heal.

Many of these reforms provoked strong reactions within the country, as they conflicted with the existing institutions, habits, customs and local interests. In addition, most of the local dignitaries and the chieftains who had fought for Greek independence were marginalised by the Bavarians.

On December 1, 1834 the capital was moved to Athens, which had just been liberated, and the political and military authorities were transferred from Nafplion, the original capital. Athens gradually evolved from a village of 4,000 inhabitants into a European capital of 41,000 inhabitants (1861). The new capital acquired an urban plan, while Bavarian architects were used to endow the Greek capital with a number of monumental buildings in the neoclassical style.

Both during the period of the regency and after the coming of age of King Otto, the connection of the new Greek state with ancient Greece and its culture was promoted actively by the Bavarians. An archaeological museum was established, and archaeological research and excavations were encouraged. A purified version of the Greek language, known as *katharevousa*, more closely linked to ancient Greek than the *demotic,* the spoken language among Greeks, was adopted as the official language in the administration and the educational system. At the same time, neoclassicism was promoted in architecture, especially after the transfer of the capital to Athens.

The founding of the University of Athens in 1837 played an important role in the connection with Greece's ancient and byzantine past. The seats of the University reflected the basic components of the Greek hegemonic ideology of the 19th century, history, language and culture. Furthermore, its mission included the 'Hellenisation' of the East. Bavarian influence also left its mark on art, with the so-called *Munich School*.

II.4 The Economy under the Monarchy and the 1843 'Default'

In 1833, with the imposition of the monarchy and the arrival of Otto and his entourage, Greece entered into a new international loan agreement for 60 million French francs, guaranteed by the Protecting Powers. However, the loan was given in instalments and was essentially wasted by the Bavarians on military and administrative expenses. As a result, in 1843 there was the second international 'default' of the Greek state, because of the inability of the Monarchy to service the loan. Given that this loan was given with the guarantee of the Protecting Powers, this gave them an extra lever and an additional reason for interference in the internal affairs of the Greek state and the imposition of their views.

In 1833, with the arrival of Otto, a new national currency, the *drachma*, was adopted. The drachma was a silver currency, different in weight than the phoenix. Unlike the phoenix, the drachma was also linked to gold, as a limited quantity of gold sovereigns were also issued. In 1841 the National Bank of Greece was established as a mixed central and commercial bank, modelled on the Bank of England. However, for many years, along with the drachma, foreign coins also circulated widely.

Greece's agricultural policy was based on the support of small farmers who had been given the right to cultivate the 'national lands', acquired by the Greek state after the private landlords of the Ottoman period were deprived of their properties. The regular revenues of the Greek state were mainly based on the revenues from the rent of the 'national lands' and the taxation of the farmers. Agricultural policy was the main economic policy during this period.

The 'national lands' were located mainly in the Peloponnese and the western part of Central Greece. The lands of eastern Central Greece, Evia and the Attica region, which were not liberated by the Greek revolutionary forces but were annexed through the treaties creating the independent Greek state, were transferred to wealthy Greeks of the diaspora, who bought them from their Ottoman owners. Agricultural land in the Cyclades belonged to Greeks and were not transferred to the state. Thus, the lands of eastern Central Greece, Evia, the Attica region and the Cyclades were the only large private properties but did not occupy more than 5% of the total arable land.

Only a small part of the 'national lands' would be appropriated by the local Greek dignitaries and former chieftains who were eyeing them. Thus, Greece avoided the creation of large private land properties. It started as a nation of sharecroppers and smallholders and retained this characteristic well into the 20th century. Exports consisted mainly of agricultural products, with raisins being the main export product, but they were insufficient to finance the necessary imports.

In the thirty years of the reign of Otto (1833-1862), the real per capita GDP of Greece displayed an average annual growth rate of 2%. However, the growth process

fluctuated sharply. In the first part of this period (1834-1848) the average annual growth rate was only 0.6%, while in the second part (1849-1962) it rose to 3.4%.

Between 1833 and 1862 the share of primary production (agriculture, animal husbandry, forestry) decreased from 85% of GDP to about 70%. Although the economy remained largely agricultural, during those thirty years a first transformation of the Greek economy gradually started taking place. The share of secondary production (mining, industry, construction), which was totally insignificant at the beginning of the period, represented about 6.5% of GDP towards the end of this period. A corresponding increase was recorded in the percentage of tertiary production (services) from 15% at the beginning of the period to 23% in 1862.

This gradual transformation was mainly due to the continuous rise in the density of the Greek population, from 15.2 inhabitants per square kilometre in 1833 to 23.4 inhabitants per square kilometre in 1862. As suggested by the theory of interregional and international trade, an increase in population density favours the more labour intensive and less land-intensive sectors of the economy, such as manufacturing and services. To put it differently, given that Greece's agricultural land was fixed during this period, population growth encouraged a gradual transition from agriculture to industry and services and from rural to urban areas.[10]

Greece had a significant trade deficit during this period, as it was an importer of both grain and manufactures. Capital inflows from the Greeks of the diaspora and invisible earnings, mainly from the merchant marine, helped finance the trade deficit, as the state could not borrow from abroad, due to the 'defaults' of 1826 and 1843.

II.5 The Constitution of 1844, the 'Great Idea' and the End of Absolute Monarchy

Otto's main domestic political pursuit was to gain and retain the support of the farmers, who constituted the most populous social class. He also cultivated the support of the evolving urban classes, to whom he offered positions and influence in the administration. The political parties of the time, the 'English', the 'French' and the 'Russian', also operated on a clientelist basis, with the aim of satisfying the demands of the 'small farmers' and participating in the sharing of power.

The central national aspiration of the country in this period was formed in the context of the 'great idea', the goal of annexing the remaining areas of the Ottoman Empire in which the majority of the population consisted of Greek or Greek-speaking Christians. The 'great idea' was explicitly formulated for the first time by Ioannis

[10] This is a consequence of the Rybczynski theorem which was developed in the context of the Heckscher (1919)-Ohlin (1933) model of interregional trade. The theorem states that at constant relative goods prices, a rise in the endowment of one factor (population relative to land) will lead to a more than proportional expansion of the output in the sector which uses that factor intensively (industry and services), and an absolute decline of the output of the other good (agriculture). See Rybczynski (1955).

Kolettis, leader of the 'French' party and later Prime Minister, at the 1844 National Assembly drafting the constitution.

The implementation of the 'great idea' looked unpromising, given the economic, administrative and military weakness of the Greek state, as well as the interests of the Protecting Powers. Any efforts at implementing it during this period were limited to inciting uprisings by the inhabitants of the areas that were still under Ottoman occupation and were largely ineffective.

The country's inability to service its international debts and its efforts to implement the 'great idea' had created both domestic financial problems and problems of international credibility. At the same time, there was political instability and great insecurity in the countryside, due to the inability of the Greek state to effectively deal with the scourges of robbery and piracy. The internal political and social reactions to economic difficulties and the authoritarian and ineffective way of governing, led in 1843 to the 'Revolution' of September 3, forcing the monarch to accept the adoption of the Constitution of 1844. This was effectively the first constitution of modern Greece, as the 1927 Constitution had been suspended by Kapodistrias and Otto had ruled without a constitution until then. However little changed in the way of governance, as Otto found ways to bypass the provisions of the 1844 constitution.

Strengthening the efficiency of the economy and the state were secondary priorities for both Otto and the political parties of the time, with the possible exception of the 'English' party, led by Mavrokordatos. However, the influence and access to power of the 'English' party was limited during Otto's reign.

The relations of the Otto Monarchy with the Protecting Powers were at times strained, as Britain and France opposed the policy of the 'great idea', seeking to prevent Russia from taking advantage of a possible further weakening of the Ottoman Empire.

Between 1854 and 1857, the port city of Piraeus was blockaded and occupied by the British and French, under the pretext of forcing Greece to settle its foreign debt, but mainly in order to prevent it from seeking to benefit territorially from the Russian-Turkish Crimean War to the detriment of the Ottoman Empire. The occupation ended only after an International Financial Audit Commission was established, to force Greece to start servicing its international debt.[11]

The continuous economic difficulties, the ineffective and authoritarian governance and the lack of progress on the implementation of the 'great idea', combined to feed

[11] This was not the only blockade of Piraeus by the British during Otto's reign. In January 1850, the British had again blockaded Piraeus for almost three months, and captured the Greek fleet, in relation to the so-called *Don Pacifico Affair*. Their aim was to force the Greek government to pay an exorbitant compensation for damages to a Portuguese resident of Athens, David (Don) Pacifico, who had been born in Gibraltar, and hence also held British citizenship. Don Pacifico's home had been invaded following an incidence during Greek Easter in 1847 and he had asked the British government to intervene in his favour.

continuous uprisings and revolts. Given the growing distrust of the Protecting Powers, especially Britain, it is not surprising that the monarch was finally forced into exile on October 12, 1862, after a wave of revolts.

Following Otto's forced exile, the Greek government temporarily moved to a three-member mediation committee. In the elections that followed in November 1862, the country was divided between the so-called 'highlanders' led by Konstantinos Kanaris and the 'lowlanders' led by Dimitrios Voulgaris. The names of the two factions were copied from the French National Assembly. The conflict between them almost led to a civil war in February 1863, during the sitting of the National Assembly that had been formed after the elections.

II.6 Changing of the Guard, Political Reforms and Territorial Gains

King Otto's successor was again chosen and imposed by the Protecting Powers. He was a Danish prince, the second son of the heir to the Danish throne, who was proclaimed King George I. George ruled for half a century, from 1863 to 1913. He was an Anglophile and willing to accept a more democratic constitution. Greece thus became a Parliamentary Monarchy.

The first period of George's reign was accompanied by political instability. Between 1863 and 1874 there were more than 20 changes of government between the 'highlanders' and the 'lowlanders'. The most important politician of that time was Alexandros Koumoundouros, who served as Prime Minister of Greece ten times, for a total period of almost 7.5 years.

After 1874, the main political star in Greece was Charilaos Trikoupis, a politician whose policy was based on reforms in the organisation of the state and the army and the strengthening of the economy. Trikoupis believed that such reforms were basic preconditions for the realisation of Greece's national aspirations, such as the 'great idea' and dominated Greek politics from 1875 to 1895. He became prime minister seven times and ruled for a total span of more than a decade. His main opponent was Theodore Diligiannis, a traditional politician who relied on clientelism and the incitement of nationalism.

In the thirty-five years between 1863 and 1898, institutional changes and reforms gradually gained momentum and led the country to a significant economic, social and political transformation. The benchmarks of this transformation include the Constitution of 1864, the agrarian reform of 1871, the strengthening of parliamentary democracy in 1875, the settlement of the 'loans of independence' in 1879, which allowed Greece to return to the international capital markets, large infrastructure projects, the development of industry and steam shipping and the expansion of Greek companies and banks in the wider area of the Eastern Mediterranean.

Moreover, during this period the Greek state expanded geographically, based mainly on the interventions of the Protecting Powers. Britain ceded the Ionian Islands to Greece in 1864, as a 'gesture of goodwill', on the occasion of the accession to the throne of the pro-British King George I. Also, with the Treaty of Berlin, after the defeat of Turkey in the Russo-Turkish war of 1877-78, Thessaly and part of Epirus (the Arta region) were ceded to Greece, as partial compensation for the strengthening of the state of Bulgaria.[12]

However, these territorial gains, although significant, were considered secondary compared to the 'great idea'. In 1897, Greece suffered a major defeat in the Greek-Turkish war which was provoked by another revolt in Crete. However, British protection once again ensured that Greece's territory remained almost intact, even after the defeat of 1897. Furthermore, in 1898 the island of Crete became autonomous, under Prince George of Greece, the second son of King George I.

II.7 Fiscal and Monetary Instability, External Borrowing and the 1893 'Default'

The 'Cretan question' and the 'great idea' constantly ignited the nationalist sentiments of the Greeks and put particular pressure on Greek governments and government budgets.

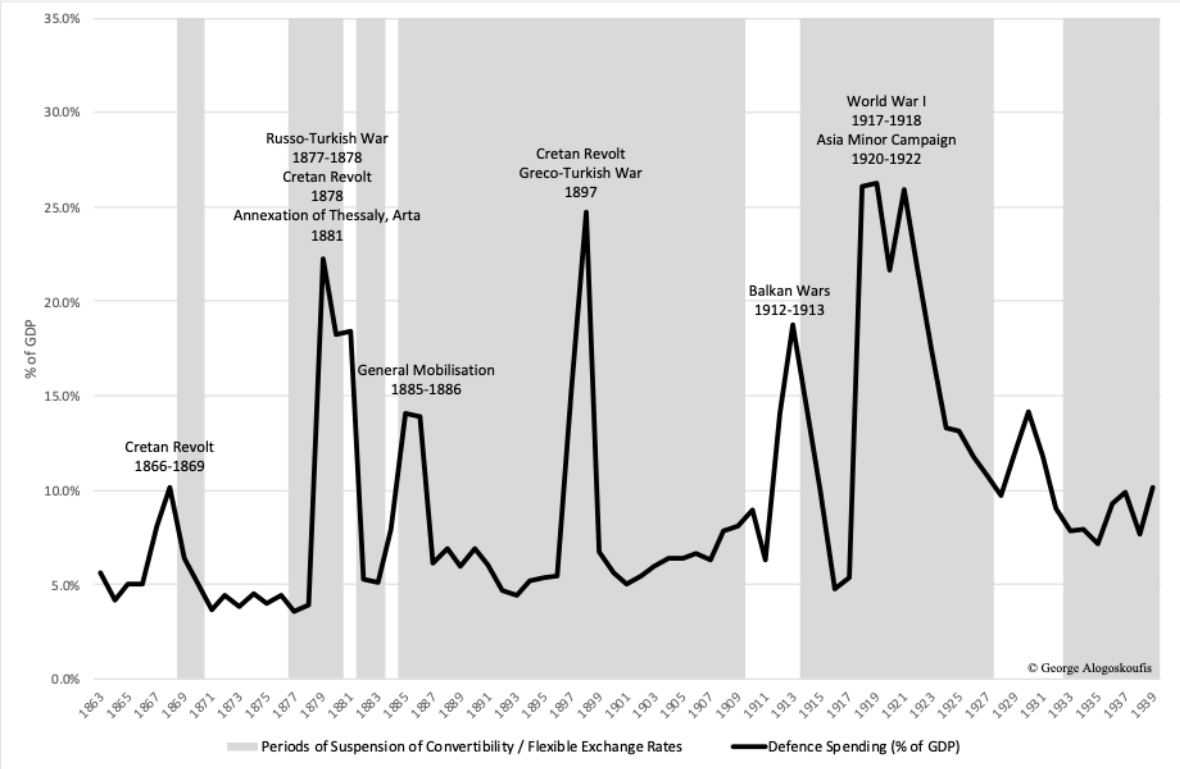
The need to maintain high defence spending led to fiscal and monetary instability. Large periodic increases in military spending caused large budget deficits and the need to finance them either by issuing unsecured banknotes or by external borrowing. As a result, for most of this period the drachma was not convertible into precious metals.

Figure 4 depicts the evolution of defence expenditure as a share of GDP between 1863 and 1939. Whereas defence expenditure was about 5% of GDP in most years during the 1863-1898 period, there were significant increases in times of external crises. For example, defence expenditure doubled to about 10% of GDP during the Cretan revolt of 1866-1869, it more than quadrupled to exceed 20% of GDP during the Russo-Turkish war of 1877-1878 and the Cretan revolt that followed, and it remained high until 1881, the year of the annexation of Thessaly and Arta. It also tripled to 14% of GDP during the general military mobilisation of 1885-1886, after the annexation of East Romelia by Bulgaria. The highest increase during this period occurred during the Greco-Turkish war of 1897, when defence expenditure touched 25% of GDP.

Greece tried unsuccessfully to join the Latin Monetary Union, which was created in 1865, when France, Belgium, Italy and Switzerland agreed to cooperate in order to

[12] The Berlin treaty overturned the treaty of San Stefano that was envisaging the creation of a dominant Bulgarian state in the Balkans. If the San Stefano treaty was implemented it would be the end of the great idea.

Figure 4
The Evolution of Defence Expenditure, 1863-1939



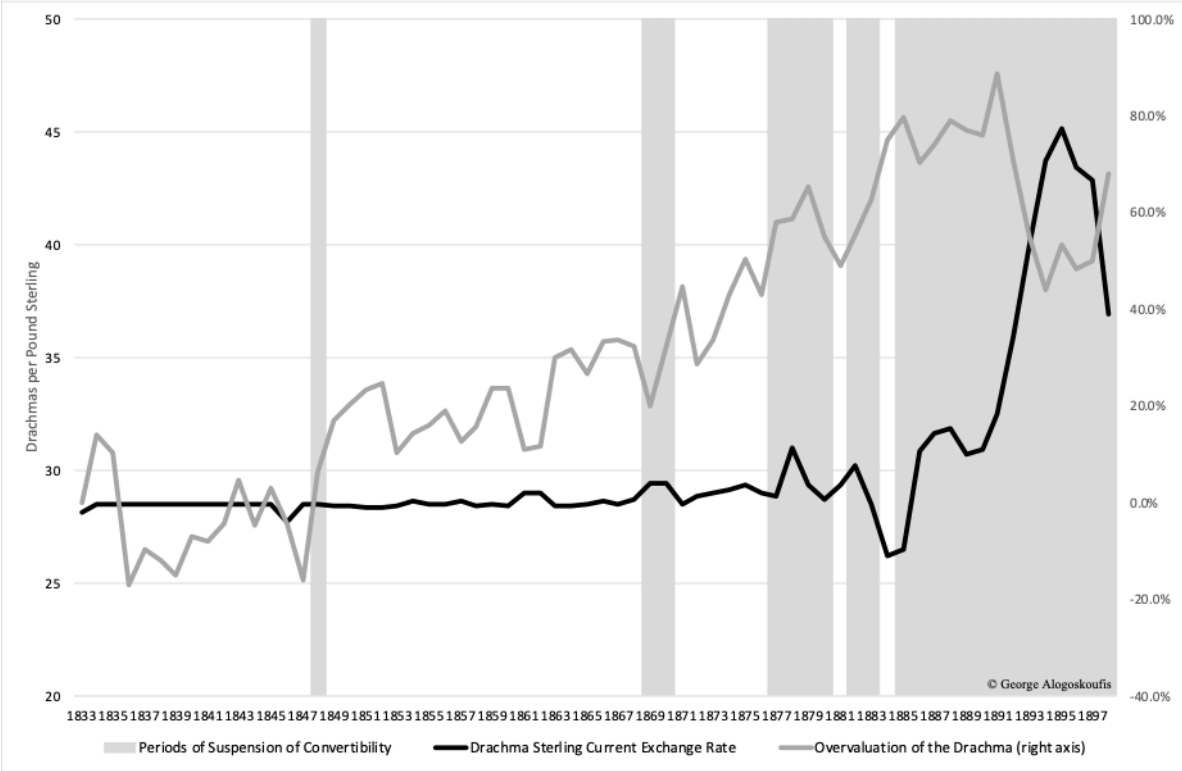
Source: Lazaretou (2014)

maintain their bimetallic monetary system. The large fiscal problems, after the Cretan revolt, led to a two-year suspension of the convertibility of the drachma in 1868 and excessive monetary expansion. Convertibility was resumed in 1870, but preparations for Greece's participation in the Latin Monetary Union were delayed again. The collapse of bimetallism and the need for new military spending eventually led to long periods of non-convertibility of the drachma.

After the annexation of Thessaly and part of Epirus in 1881, Greece had to further increase public expenditure for the integration of these two regions. As a result, it remained in a regime of fiat money for a long time. This facilitated the financing of budget deficits, but at the cost of monetary instability and strong inflationary pressures.

Under these circumstances, the drachma could not participate in the gold standard, the international monetary regime that prevailed after the collapse of bimetallism in 1879. Despite the intentions of Greek governments, the timely integration of the drachma into this system became impossible in this period. The attempt to restore convertibility in 1885 failed again due to the large budget deficits caused by the general mobilisation of the Diligiannis government, during a period that became known as 'peaceful war'.

Figure 5
The Drachma-Sterling Exchange Rate, 1833-1898



Source: Dertilis (2004) and Lazaretou (2014). The overvaluation of the drachma is measured relative to the exchange rate that would maintain purchasing power parity between Greece and Britain, as in Dertilis (2004).

Yet, between 1879 and 1893 the country had easier access to foreign borrowing, due to the settlement of the 'loans of independence' in 1879 and the favourable conditions that prevailed in international capital markets. Negotiations with creditors over the 'loans of independence' had resumed after 1863, but did not bear fruit until September 1878, when the Koumoundouros government reached a compromise with the bondholders.

During this period, external borrowing rose excessively. Defence spending and new investment in infrastructure, such as new roads, extensions of the rail network, ports, the Corinth canal and the drainage of the Kopais plain, were mainly financed through external borrowing. As a result, a significant portion of public spending was gradually directed towards servicing the rising level of the accumulated foreign debt. Thus, the country was led to over-indebtedness, which resulted in the 'default' of 1893. This was the third international 'default' of the Greek economy, after those of 1826 and 1843.[13]

An additional factor that contributed to the 'default' of 1893 was the gradual overvaluation of the Greek drachma, caused by the policy of maintaining

[13] Alogoskoufis and Lazaretou (2002), Chapter 4, contains a detailed analysis of the causes of fiscal and monetary instability during this period.

convertibility for as long as possible, despite the positive inflation differential of Greece and its main trading partners. As demonstrated in Figure 5, this policy resulted in a fixed exchange rate of the drachma vis-a-vis sterling (and other international currencies) for most of this period, and a significant overvaluation of the drachma over time. The overvaluation must have also contributed to the widening of the trade deficit of Greece, which was mainly financed through capital inflows from the Greek diaspora and, after 1879, through foreign borrowing as well. The overvaluation of the drachma vis-a-vis sterling had reached almost 80% in the mid-1880s, when Greece abandoned its attempts to restore convertibility and participate in the international gold standard. The large nominal depreciation of the drachma after 1885 and the 'default' of 1893 temporarily corrected a large part but not all of this overvaluation.

After its defeat in the Greco-Turkish war of 1897, Greece was forced to pay Turkey the sum of 4,000,000 Ottoman liras, as immediate war reparation. This forced the Zaimis government to resume the negotiations with Greece's foreign creditors that had been interrupted. In 1898 these led to a new loan but also the establishment of the International Financial Audit Commission. The main objective of the Commission was the collection of tax revenues as well as the supervision of the gradual repayment of the country's external debt. To this effect the Commission imposed a policy of strict fiscal adjustment and monetary discipline.

II.8 Transformations and Fluctuations in a Stagnant Economy

The average annual growth rate of real per capita income between 1833 and 1898 was just 0.9% and fluctuated sharply from year to year. Undoubtedly, this period as a whole was a period of economic stagnation and minimal improvement in living standards. At this rate of growth of living standards, as measured by real per capita GDP, it would take more than 80 years for living standards to double.

However, the low rate of economic growth did not mean that there were no transformations of the Greek economy. The share of the primary sector in GDP continued to decline, from about 80% in 1833 to about 60% at the end of the 19th century. The share of the secondary sector (mining, manufacturing and construction) rose from almost zero to 15% of GDP. The share of services also displayed a small increase and in the end of the 19th century it had reached 25% of GDP. Yet, these transformations were clearly too slow to generate rapid economic growth.

The process of economic growth through the rapid accumulation of physical and human capital and technical process, emphasised by neoclassical models, never took off in Greece during the 19th century. Although adequate data does not exist, it appears that the accumulation of physical capital in Greece was low because of the low savings rate and that spending on education and training and technical progress

was also low. Significant public investment to improve Greece's economic infrastructure was only undertaken during the 1880s.[14]

Other processes that could lead to a take-off of economic growth, such as large-scale labour migration from a low productivity agricultural sector to a high productivity industrial sector, did not take place in Greece either. The main reason was the absence of a large enough high productivity industrial sector that would serve as a magnet for the migration of agricultural workers from rural agricultural areas to urban industrial areas.[15]

The most important migration flow that occurred in Greece before the 1890s was the migration of agricultural workers from low productivity lands in the mountains to higher productivity lands in the plains. In addition, domestic urban industries developed very slowly, as most industrial goods were imported. The only significant urban centres were ports, such as Ermoupolis, in the island of Syros, Piraeus and Patras.[16]

It was only after the 1870s that Greece attempted to protect its domestic industries. In addition, capital inflows from wealthy Greeks of the diaspora were not invested in industry, but either in the purchase of agricultural lands, as in Attica and Evia after 1828 and Thessaly after 1881, or in speculative mining and financial deals.[17]

Despite long-term stagnation, which is the main feature of this period, the Greek economy in the 19th century is also characterized by three medium-term cycles of expansion and contraction of economic activity. These cycles can be identified from Figure 6, which depicts the evolution of real per capita GDP during the 19th century and its fluctuations, based on the application of a statistical filter that eliminates short-term factors and allows one to identify the effects of more permanent factors, like changes in the trend of a variable.[18]

The first cycle is that of the period 1833-1847. During these 15 years, per capita GDP had an upward trend in the period 1833-1838 and a downward trend in the period 1839-1847. The period of rising per capita GDP seems to be connected with the

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[14] Neoclassical models of economic growth, such as the generalisation of the Solow (1956) model by Mankiw et al (1992), suggest three main factors driving economic growth: Accumulation of physical capital (machines and other capital goods, including investment in public infrastructure), accumulation of human capital (spending on education and training of workers) and technical progress, driving total factor productivity.

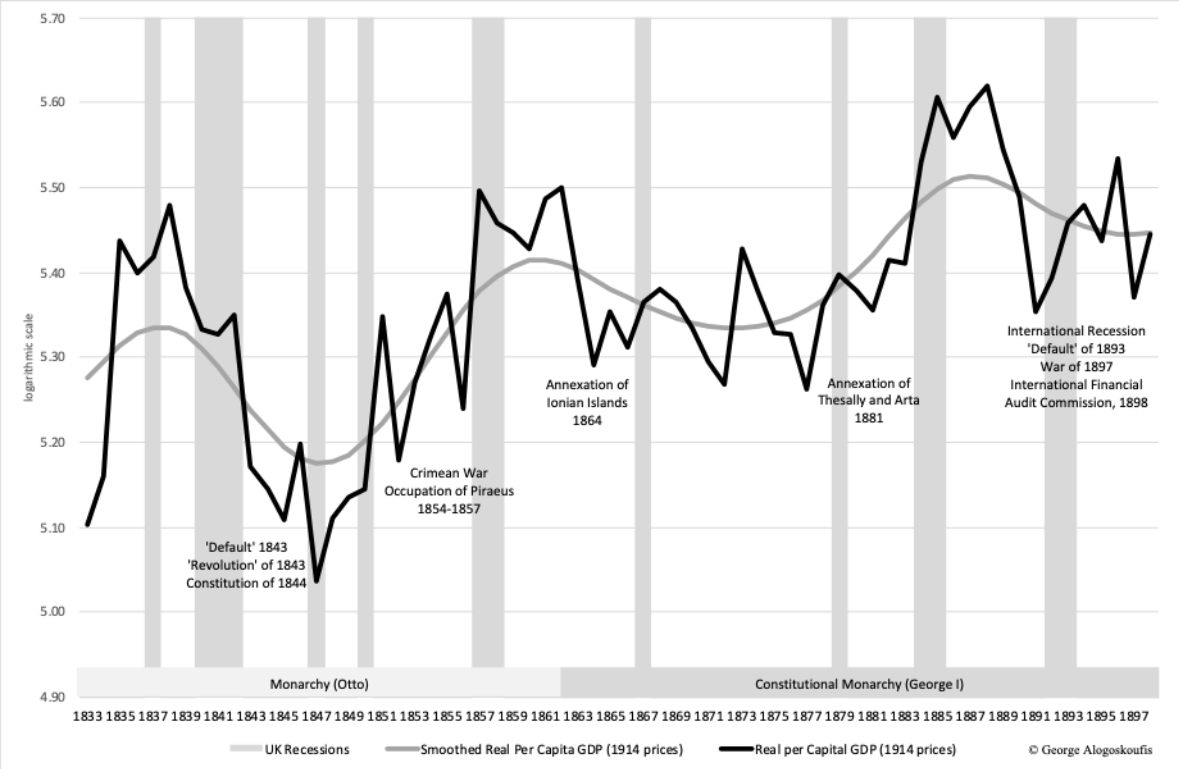
[15] This process is the key factor driving economic growth and development in two-sector models with migration from a low productivity agricultural sector to a high productivity industrial sector. The classical such models are Lewis (1954), Fei and Ranis (1964) and Harris and Todaro (1970).

[16] Ermoupolis was an important centre of international trade, handling part of the grain trade from the Black Sea and the Ottoman Empire towards the western Mediterranean and northern Europe, and the reverse trade of manufactures from Europe to the Ottoman Empire and the Black Sea. Pireaus, the port of Athens, handled much of Greece's imports of grain and manufactures, whereas Patras was the main port for the export of currants, the main export commodity of Greece during this period.

[17] This period also saw the development of some joint stock companies, both in industry and services. Pepelasi and Vidali (2019) investigate the determinants of joint stock companies births from 1840.

[18] See Hodrik and Prescott (1997) and the footnote of Figure 6.

Figure 6
Evolution and Fluctuations of Real GDP Per Capita in Greece, 1833-1898



Note: The source is Kostelenos et al (2007). Real per Capita GDP is measured in LMU drachmas, at 1914 prices. It is presented in a logaritmic scale. The grey line depicts the 'smoothed' series, based on the application of a Hodrik and Prescott (1997) filter. This filter eliminates short-term disturbances to the series and identifies changes in the trend.

reconstruction of the Greek state after the arrival of Otto, the inflow of the resources of the loan of 60 million French francs, but also the low starting point of the Greek economy. The downturn was much longer and may be due to the budget cuts of Otto's governments at the urging of Greece's international creditors and the negative international economic conditions. The average annual growth rate of real GDP per capita during the second sub-period was negative, equalling -4.5%.

The second cycle is that of the period 1848-1877. This cycle is also the longest. GDP per capita showed an upward trend in the period 1848-1862, mainly due to the large increase in agricultural production caused by the expansion of the cultivation of raisins, an export crop, in the plains of the north and west Peloponnese, as well as the gradual rise of manufacturing and services due to population growth. The average annual growth rate of real GDP per capita was 3.7% during 1848-1862. However, this was followed by a long recession in the 1863-1877 period. These fifteen years of recession are the longest period of recession in the Greek economy. The average annual growth rate of real GDP per capita was negative, equalling -1.3%.

The third cycle is that of the period 1878-1898. This twenty-one-year cycle is the second longest of the 19th century. GDP per capita showed an upward trend in the period 1878-1888 and a downward trend or stagnation in the period 1889-1898. The

decade of rising real GDP per capita coincides with a favourable international economic environment and the economic policy of large investments in the transport infrastructure and support of domestic manufacturing, by the governments of Charilaos Trikoupis. The average annual growth rate of real GDP per capita was 3.4%. The decade of declining real GDP per capita that followed coincides with the international crisis of the 1890s, the 'default' of 1893, the Greek-Turkish war of 1897 and the eventual imposition of the International Financial Audit Commission in 1898. The average annual growth rate of real GDP per capita was negative during this last period, equalling -1.4%.

In addition, after the 'currant crisis' of the early 1890s there was a large wave of emigration to the United States, mainly from the Peloponnese. In total, about 417000 Greeks, 11% of the entire population and mostly males, participated in this great exodus which lasted until the third decade of the 20th century.

To summarise, during the first historical cycle 1833-1898, the transformation of the Greek economy was particularly slow and the rate of economic growth particularly low. The average annual growth rate of real GDP per capita was around 1%. There were two periods of high growth, the fifteen years between 1848 and 1862 and the ten years between 1878 and 1888.

During the first period, growth can be partly attributed to the increase in agricultural productivity and the gradual shift towards manufacturing and services. Greek farmers gradually moved to farming more productive lands in the plains of the north-western Peloponnese and higher value crops such as raisins, while there was also a gradual shift of economic activity to mining, manufacturing, construction and services, because of population growth which led to a partial exodus from agriculture. During the second growth period, growth can also be attributed to the increase in infrastructure investment and the favourable international environment.

Overall, capital accumulation remained low, due to insufficient domestic savings and capital inflows from abroad and so did human capital accumulation and technical progress. Furthermore, there was significant fiscal and monetary instability, due to the periodic large increases in defence and related expenditures, the suspensions of convertibility and the external debt crises and 'defaults'.

Yet, despite its grave economic difficulties and lack of sustained growth, Greece managed to achieve a significant part of its national goals during this long historical cycle: State building and the consolidation of a Greek identity, an important role for parliament and democratic government and a first expansion of its borders.

The end of this cycle saw the establishment of an international commission which oversaw the stabilisation of Greece's currency, its public finances and the economy in general. At the time, this was seen as a major blow to national sovereignty. Yet, the stabilisation proved critical for the preparation of Greece for the next historical cycle, which was a cycle of national expansion and consolidation.

III Wars, Internal Conflicts and National Expansion and Consolidation, 1899-1949

The second cycle covers the first half of the 20th century, from the stabilisation of the economy through the policies imposed by the International Financial Audit Commission in 1898 until the end of the civil war in 1949.

This cycle is characterised by three main features. First, the implementation of a large part of the 'great idea', with the significant territorial and population expansion of the Greek state, second, the high political, economic and monetary instability associated with wars and internal conflicts, and third, significant social and economic transformations following the integration of new territories, populations and refugees. It is through the turbulence of this period that the borders and the population of the Greek state were finally consolidated.

This dense historical period includes the economic stabilisation of the first decade of the 20th century, the triumphs in the Balkan wars and the ensuing great territorial and population expansion, the First World War, the 'national schism', the Asia Minor campaign and disaster, the revival of the 'national schism', the successful integration of the Asia Minor refugees, World War II, occupation and civil war.

Towards the end of this cycle, and after the decline of the British Empire, Greece was integrated into the 'western alliance', led by the USA. This proved to be a significant development, that prepared Greece for its next historical cycle.

III.1 From Economic Stabilisation to the Balkan Triumphs

The policy of the International Financial Audit Commission initially led to a prolongation of the recession of the Greek economy. Between the 1899 and the beginning of 1902 GDP per head fell by almost 15%. On the other hand, the adjustment resulted in the stabilisation of Greece's public finances and the restoration of monetary discipline.[19]

This allowed Greece to regain access to international capital markets and embark on a new ambitious armaments program launched under the governments of Georgios Theotokis (1905-1909). This program continued after the election as Prime Minister of Eleftherios Venizelos.

The political star of Venizelos rose after the military coup in Goudi in 1909. The Goudi coup was the first in a series of military interventions in Greek politics that were to follow in the 1920s, but its importance lies mainly in the fact that it prepared

[19] Alogoskoufis and Lazaretou (2002), Chapter 4, and Lazaretou (2013) provide relatively detailed analyses of the policies of the International Financial Audit Commission and their macroeconomic effects.

the ground for the rise to political dominance of Eleftherios Venizelos, a prominent Cretan politician, whom the coup leaders invited to Athens.

Venizelos became prime minister in late 1910. A new constitution was soon approved and adopted in mid-1911. The 1911 Constitution included important reforms such as the strengthening of individual freedoms, measures to facilitate the legislative work of the Parliament, the establishment of obligatory elementary education, the legal right for compulsory expropriation, the tenure civil servants, the right to invite foreign personnel to undertake the reorganisation of the administration and the armed forces, the re-establishment of the State Council and the simplification of the procedures for the reform of the Constitution itself. In addition, legislation was introduced to protect workers, improve working conditions in factories and the administration of justice, as well as significant tax reforms.

In addition, the Venizelos government focused on national defence. It improved the training of Greek army officers and privates, with the assistance of Britain and France, placed significant additional orders for weapons and ammunition, and continued to modernise the Royal Navy. These preparations, which were largely a continuation of the policy of the Theotokis governments of the period 1905-1909, played an important role in the successful outcome of the Balkan wars.

In 1912 Greece, Bulgaria, Montenegro and Serbia formed the Balkan Coalition against the declining Ottoman Empire. The First Balkan War began when the Coalition member states attacked the Ottoman Empire on October 8, 1912. The war ended eight months later with the signing of the Treaty of London on May 30, 1913. The Second Balkan War began on June 16, 1913, after an unprovoked attack by Bulgaria against Serbia and Greece. The numerically superior united armies of Serbia and Greece repulsed the Bulgarian attack, while both Romania and the Ottoman Empire became involved in the war against Bulgaria. With the Treaty of Bucharest that followed, Bulgaria lost most of the territories it had gained during the First Balkan War.

With the Balkan Wars of 1912-1913 Greece increased its geographical territory by about 90%, annexing Macedonia, Epirus (including Northern Epirus), Crete and the islands of the eastern Aegean (including Chios, Mytilene and Samos). The population of the kingdom increased by about 70%, from 2.8 to 4.8 million inhabitants.

The consequences of the Balkan wars were catalytic for Greece. The Greek state increased both in size and population, resulting in the implementation of a large part of the 'great idea'. In addition, the composition of the population and the social structure changed radically. This was due to the integration of a 'multinational' region such as Macedonia, as well as the population movements that followed. The Greek state acquired large additional agricultural areas as well as a second large urban centre and port, in the city of Thessaloniki.[20]

[20] Thessaloniki at the time was perhaps the most developed city of the Greek state, with a large, multinational, sophisticated and organised workforce.

III.2 The 'National Schism', the Asia Minor Disaster and the End of the 'Great Idea'

However, the triumph of the Balkan Wars was followed by the 'national schism' of 1916 and the Asia Minor Disaster of 1922, which also marked the end of the pursuit of the 'great idea'.

The 'national schism' arose after the outbreak of World War I in 1914, due to the disagreement between the new King Constantine I and Prime Minister Venizelos regarding Greece's participation in the war. Venizelos wanted Greece to participate in the war unconditionally, on the side of the Anglo-French alliance of the *Entente Cordiale*. Constantine, however, favoured the neutrality of Greece, and demanded the country's participation on the side of the *Entente* only under conditions and promises of further territorial concessions. This attitude was interpreted by both the Venizelists and the Anglo-French as pro-German, but he also had many domestic supporters due to the 'war fatigue' after the Balkan wars.[21]

The uncompromising attitude of both sides, with Constantine acting on the limits of constitutional legitimacy and Venizelos finally openly violating the Constitution, created conditions for a great and long-term political and national 'schism'. Venizelos finally embraced the coup of the breakaway 'National Defence Movement' and headed an 'alternative' government in Thessaloniki.[22]

After a naval blockade of southern Greece by the French and British navy, that lasted for many months, the 'national schism' ended officially in June 1917, when the Anglo-French forced Constantine into exile and reunited Greece under Venizelos. The second son of Constantine Alexander ascended the throne. The official participation of Greece in the War from 1917 contributed to the final victory of the Entente and resulted in the capitulation of Bulgaria in 1918.

At the end of the war, Greece was once again on the side of the victors. The Treaty of Sevres (1920) ceded Western and Eastern Thrace and the islands of Imvros and Tenedos to Greece, and ratified its sovereignty over the other Aegean islands, except the Dodecanese, which had already been occupied by Italy since 1913. However, the region of Northern Epirus was integrated into Albania. In addition, the treaty ceded the administration of the Smyrna region provisionally to the Greek state.

In October 1920, the Greek army advanced into central Asia Minor with the hesitant support of Britain and France, who wanted to impose the Treaty of Sevres on the nationalist Turkish government. However, they had also begun secret negotiations with the Neo-Turks.

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[21] For relatively dispassionate descriptions of the first stages of the 'national schism' see Dakin (1972), Clogg (1992) and Beaton (2020).

[22] For the role of the military in Greek politics, especially following the 'national schism', see Veremis (2000).

Despite these developments, which had transformed Greece into a regional superpower, that extended geographically to 'two continents and five seas', in Greece itself there was a revival of the 'national schism'. Venizelos, yielding to constant demands from the opposition, reluctantly resorted to elections, the 'United Opposition' triumphed under the leadership of Dimitrios Gounaris. Disappointed with the outcome of events, Venizelos went into self-exile in Paris. The military campaign in Asia Minor, which was started by his government, continued under the new government, despite its pre-election promises to withdraw the troops.

In November 1920, Constantine was re-instated to the throne after a referendum. Britain and France issued proclamations to the new government by which they did not recognise Constantine as head of state and froze all loans that had been promised to Greece during World War I. The return of King Constantine gave them the pretext they were probably looking for, in order to withdraw their support. Only Britain continued to support Greece in the Greek-Turkish war, albeit only at the diplomatic level.

The Gounaris government, calculating that its election promise to withdraw troops from Asia Minor in the midst of a total war could be nationally and politically suicidal, decided to continue the Venizelos policy and to escalate the military operations in order to quickly put an end to the Turkish resistance. This fatal decision was reinforced by the behind-the-scenes urgings of the British.

The campaign intensified in 1921 but after the failure to occupy Ankara, the army was stranded on the banks of the Sangarios river. A year later a major Turkish counter-offensive took place (August 1922). The over-stretched Greek lines, the exhaustion of the soldiers from the long campaign and the ferocity of the counter-offensive led to the break-up of the Greek front and an unruly retreat. On September 8, the first Turkish soldiers entered Smyrna, and on the 13th began sacking the city. Extreme violence was used, and widespread atrocities were carried out against the Christian populations throughout Asia Minor.

The negative outcome of the Asia Minor campaign led to a great disaster, the loss of hundreds of thousands of lives and the displacement of 1.5 million Greeks. The 2,500-year-old Greek presence in Asia Minor ended in the flames of Smyrna. The Asia Minor disaster marked the end of the 'great idea' which had been the central axis of the national policy of the Greek state for almost a century and the main ideology fuelling the self-consciousness of modern Greece.

III.3 Political Instability, Economic Stabilisation, 'Default' of 1932 and Rapid Recovery

The Balkan Wars of 1912-1913, and Greece's participation in World War I had led to an impressive expansion of the borders and the population of the country, but also to a significant drop in per capita GDP. In 1917, real GDP per capita, adjusted for

purchasing power parity, had fallen to a lower level than even 1833. However, the recovery was rapid and in 1924, despite the Asia Minor disaster, real per capita GDP exceeded the levels of 1911.

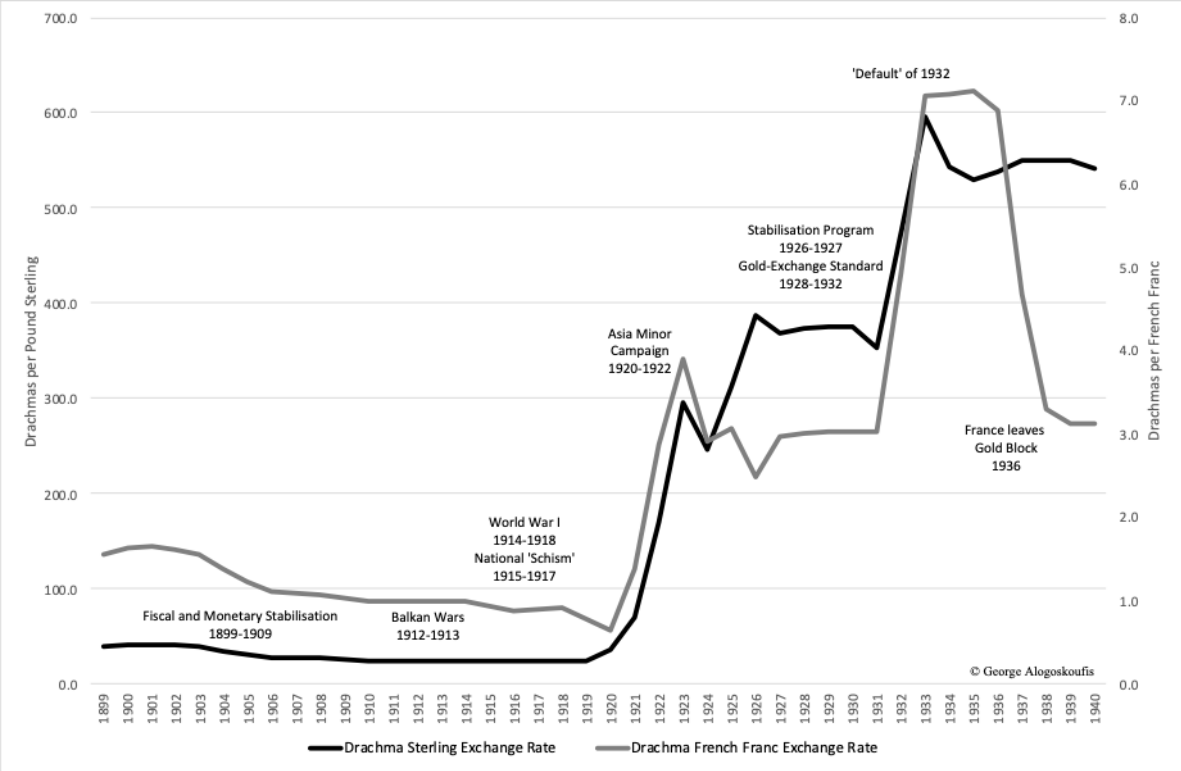
The Asia Minor disaster was followed by a new period of extreme political and economic instability. Officers associated with Venizelos, under the leadership of Colonels Plastiras and Gonatas, staged a military coup and King Constantine was again forced into exile. He was temporarily succeeded by his son George II until 1924, when the monarchy was abolished. The coup leaders shifted the entire blame for the disaster on their political opponents and staged the 'trial of six'. This parody of a trial resulted in the death sentence and execution of five former prime ministers and ministers and the Asia Minor army commander. This tragic development was the culmination of the extremes that characterised the 'national schism' that had begun with the declaration of World War I, and which continued throughout the interwar period, with military dictatorships, the fragile 2nd Hellenic Republic, the restoration of the monarchy in 1935 and the dictatorship of August 4, 1936.

The period of the Republic, 1924-1935, which is often termed as the 2nd Hellenic Republic, was characterised by frequent coups and interventions of the army in politics. In 1925, Theodoros Pangalos seized power in a coup to be toppled by another coup by Kondylis in 1926, who called a general election at the end of the year. The 1926 elections took place under a system of proportional representation and resulted in three successive coalition governments, under the moderate Alexandros Zaimis.

One of the important developments of this period was the agricultural reform of 1923, which consolidated the reform of 1917 initiated by the Venizelos government, by distributing large agricultural plots in Epirus, Thessaly, Macedonia and Thrace to the farmers who cultivated the land. This helped the integration of the waves on refugees and defused the social problems that had arisen in Thessaly and elsewhere by the emergence of large private landholdings after 1881.

During the first period of political instability that followed the Asia Minor disaster, public finances were again completely out of control. External borrowing was impossible, and recourse to monetary financing became inevitable for Greek governments. This resulted in significant and persistent rises in inflation (see Figure 3) as well as large nominal depreciations of the drachma.

Figure 7
The Drachma-Sterling and Drachma-French Franc Exchange Rates, 1899-1940



Source: Lazaretou (2014).

The paths of the exchange rates of the drachma vis-a-vis sterling and the French franc are depicted in Figure 7. Following the fiscal and monetary stabilisation of 1899-1910, the drachma had appreciated against both sterling and the franc. In 1910 it had achieved parity with the French franc and the drachma exchange rates had remained stable, through the capital controls employed during World War I. The monetary financing of the Asia Minor campaign after 1920 resulted in significant depreciations of the drachma against both currencies. Between 1920 and 1923, the drachma was devalued by almost 92% against sterling and by 80% against the French franc.

At the same time, monetary instability prevailed in most of the rest of Europe, as the imbalances caused by the war and the excessive war reparations imposed on the losers made it extremely difficult to restore the gold standard at pre-war exchange rates. For example, France allowed devaluations of the French franc and returned to the gold standard in 1926, at a devalued exchange rate, while Britain embarked on a policy of deflation, so as to restore the pre-war parity of sterling and returned to the gold standard at the pre-war parity in 1925. As shown in Figure 6, these policies had implications for the exchange rate of the drachma as well. While the drachma stabilised against the depreciating French franc, there was a further depreciation against the appreciating sterling, which returned to the gold standard in 1925.

A first attempt at fiscal adjustment and monetary stabilisation in Greece was made in 1924. However, this attempt failed and by 1926 fiscal and monetary instability had returned. At the end of 1926, the Zaimis government designed and successfully implemented a two-year stabilisation program, with the aim of balancing public finances, settling war debts and stabilising the exchange rate of the drachma. Along with the stabilisation program, the government began negotiations with the League of Nations (March-September 1927), with the aim of adopting the gold-exchange standard and encouraging the inflow of foreign capital.

The Commission formed by the League of Nations argued that banking reform should take precedence. Specifically, the Commission demanded the establishment of a new, politically independent, central bank, under the name Bank of Greece, as a basic precondition for the provision of financial assistance by the League of Nations. The new central bank would operate with political independence and would have the exclusive right to issue banknotes. In September 1927 it was agreed to provide a tripartite loan of 9 million pounds to Greece, and the drachma was linked with sterling at a fixed exchange rate. Through this connection, Greece itself adopted the gold-exchange standard.

In 1928, Venizelos was re-elected prime minister and ruled until 1932. During this four-year period, the Venizelos government attempted to introduce several reforms and implement an ambitious public investment program. However, in the midst of the international economic and financial crisis of the 1930s, Greece was forced to abandon the gold-exchange standard in 1932, something that led to a significant further depreciation of the exchange rate and another sovereign ‘default’, the fourth in its history.

The Liberal Party lost the elections to the People's Party of Konstantinos Tsaldaris. Army officers supporting Venizelos attempted two failed military coups in 1933 and 1935. Finally, in 1935, after a successful coup by Kondylis, a disgruntled former supporter of Venizelos, a referendum was called for the abolition of the Republic and the restoration of the Kingdom. The widely disputed 1935 referendum led to the restoration of King George II.

On August 4, 1936, Ioannis Metaxas, leader of a small nationalist party that had only polled 4% of the vote, with the tolerance of King George II, dissolved parliament and imposed a dictatorship. The dictatorship of August 4th lasted until 1941 and the start of the occupation of Greece.

It is worth noting that in the rest of the interwar period, between 1923 and 1939, and despite the political and economic instability, the ‘Great Depression’ of the 1930s and the ‘default’ of 1932, the average growth rate of Greece’s GDP per capita remained positive, at about 2% per annum. During the first part of this period aggregate demand was bolstered by high fiscal deficits, international aid for the settlement of the refugees and, after the adoption of the gold-exchange standard, high external borrowing. After the ‘default’ of 1932 aggregate demand remained

high due to the devaluation of the drachma, high tariff protection and capital controls.

III.4 From the Disaster of the Occupation to the Catastrophic Civil War

World War II, the occupation of 1941-1944 and the civil war that followed were catastrophic periods for the Greek economy. Despite the fact that at the end of the war Greece was in the camp of the victors, the human losses were unprecedented and the economic and social consequences of the war and the occupation were devastating.

The occupation of the country by the Axis powers brought about an almost complete destruction of the Greek economy, causing an unprecedented famine and an equally unprecedented hyperinflation. This period led to a dramatic and arbitrary redistribution of income and wealth and led to the total collapse of the monetary and financial system.[23]

Among the other disasters caused by the war and the occupation, special emphasis should be placed on the outbreak of the catastrophic civil war after the liberation of 1944. The civil conflict, which lasted until 1949, caused enormous additional social, political and economic costs, and slowed down the effort to stabilise and restructure the economy. Once again, Greek society was split into two, with negative consequences that continued to exist for much of the post-war period.

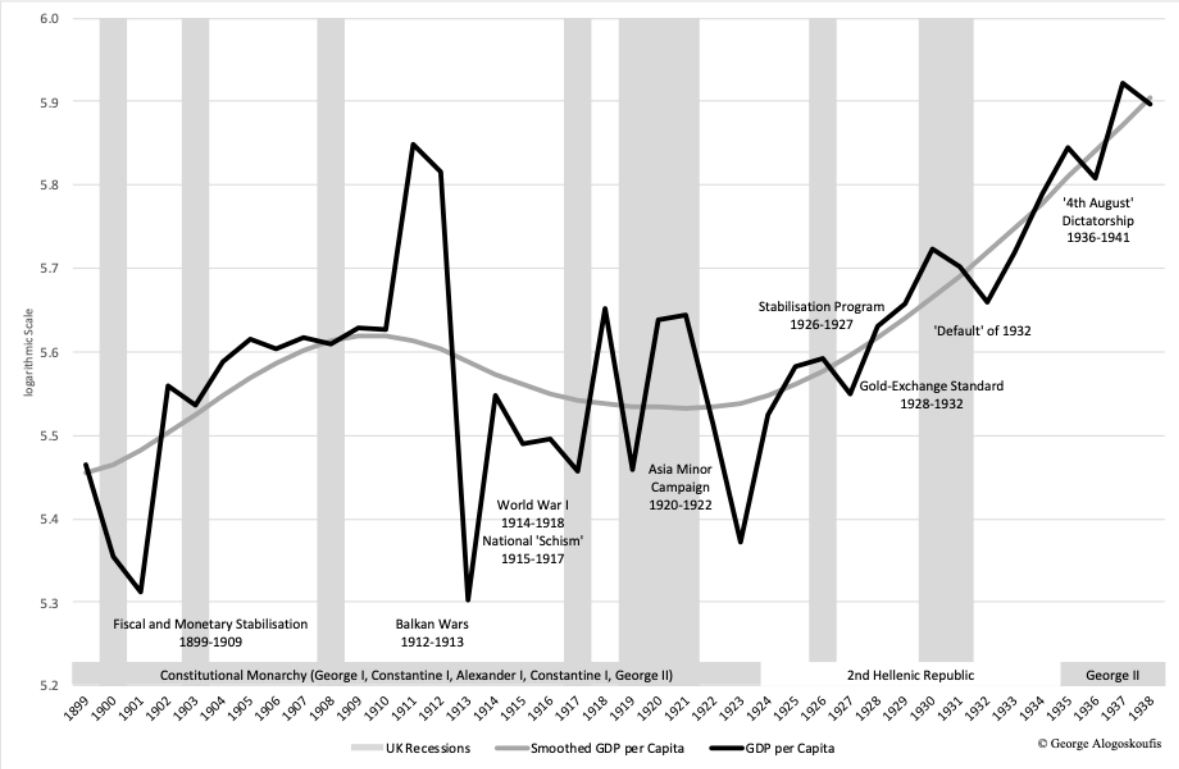
III.5 Growth and Recessions from the end of the 19th Century to World War II

Despite the wars, the national schism and the political, fiscal and monetary instability, GDP growth during this period was not insignificant. The evolution of real per capita GDP in this period is depicted in Figure 8.

One can distinguish among three sub-periods before World War II and the occupation. The sub-period of the fiscal and monetary stabilisation, 1899-1911, the sub-period from the eve of the Balkan wars until the Asia Minor disaster, 1911-1923, and the sub-period from the aftermath of the Asia Minor disaster until the eve of World War II, 1924-1938.

[23] For a vivid account of the occupation and its dire implications for the people of Greece see Mazower (1993). For the economic and monetary collapse see Alogoskoufis and Lazaretou (2002), Chapter 8.

Figure 8
Evolution and Fluctuations of Real Per Capita GDP in Greece, 1899-1938



Source: Kostelenos et al (2007). Real per Capita GDP is measured in LMU drachmas, at 1914 prices. It is presented in a logaritmic scale. The grey line depicts the 'smoothed' series, based on the application of a Hodrik and Prescott (1997) filter. This filter eliminates short-term disturbances to the series.

Average annual GDP per capita growth was positive and significant until 1911 and after 1923. It was only negative during the succession of the Balkan wars, World War I and the Asia Minor campaign and disaster, i.e. between 1912 and 1923. The average annual growth rate of real per capita GDP was 3.6% for the 1899-1911 period, -2.1% for the 1912-1923 period and recovered to 3.7% for the 1924-1938 period. Hence, outside the period of wars, GDP per capita growth was quite robust, and certainly much higher than during the 19th century.

Yet, the occupation was an unmitigated disaster. Real per capita GDP fell by about a third during this period, and in 1945 it was even lower than the levels of 1833. However, the recovery was once again rapid, despite the escalation of the post-1946 civil war. Foreign relief aid and the Marshall Plan, an ambitious US-funded plan to rebuild the economies of Western Europe, were critical. By the end of the civil war in 1949 real GDP per capita had almost doubled from 1945, at $ 2564 (2011 prices).[24]

The end of this historical cycle coincides with the end of a major civil war, the consolidation of the borders and population of modern Greece and the integration

[24] Alogoskoufis and Lazaretou (2002), chapters 8 and 9 provide a detailed analysis of economic developments during the occupation and the civil war, as well as the first attempts at economic stabilisation following the end of the occupation of 1941-1944.

of Greece into the 'western alliance', something that proved critical during the next major historical cycle.

IV The Growth 'Miracle', the Restoration of Democracy and the European Union

The third major historical cycle started in 1950, after the end of the civil war, and lasts until today. Its three distinguishing features are the growth 'miracle' of 1953-73, followed by the long slowdown of 1980-2019, the democratic 'miracle' since the restoration of democracy in 1974, and the accession to the European Union after 1981.

In its first phase, between 1950 and 1973, this historical cycle is characterised by a nominally democratic but autocratic post-war political regime, followed by a seven-year military dictatorship, but also the reconstruction and high growth of the Greek economy, in conditions of unprecedented monetary stability.

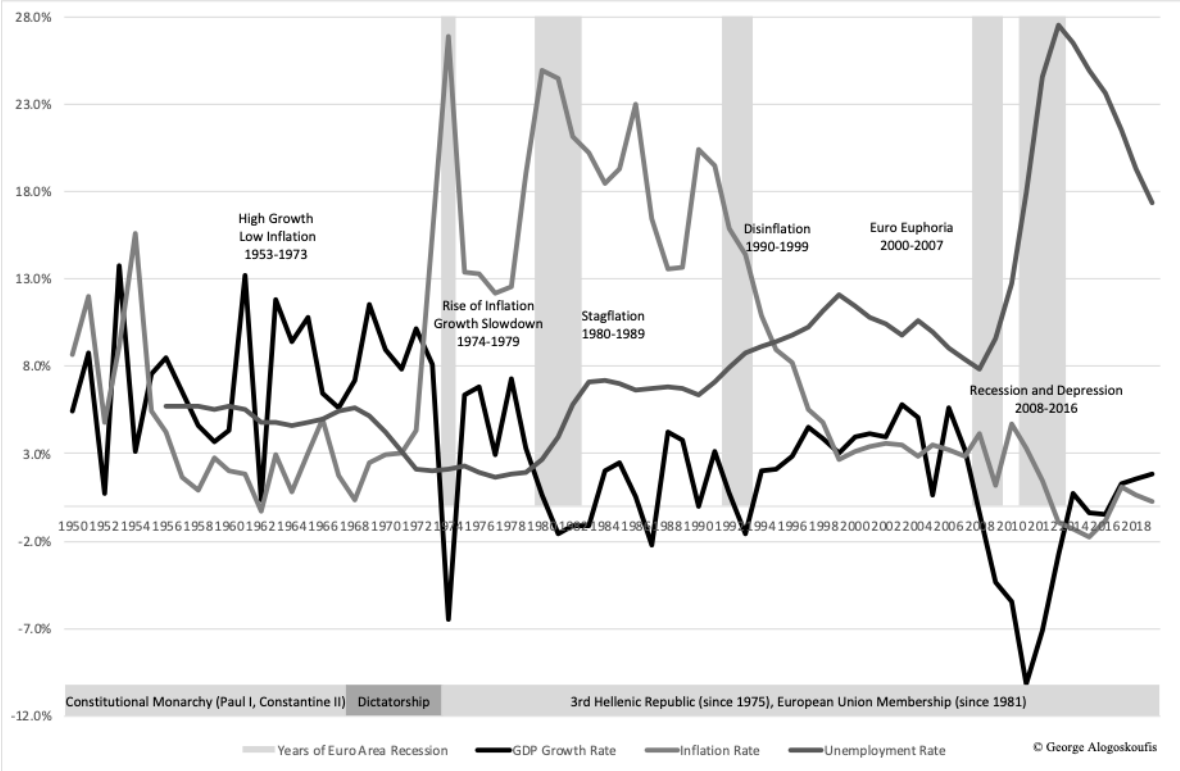
The second phase of this historical cycle began with the restoration of democracy in 1974 and continues to this day. Its main features are the most liberal and mature democratic regime in the political history of modern Greece, the pursuit of the redistribution of income and wealth and the accession of Greece to the European Union. However, in this second phase there has also been a significant deterioration in Greece's economic performance.

Figure 9 depicts the main macroeconomic developments since the end of the civil war in 1949, based on the evolution of real GDP growth, inflation and the unemployment rate. It distinguishes between the high growth low inflation period of 1953-1973, and the periods of the slowdown, stagflation, disinflation and euro area participation that followed.[25]

The average annual growth rate of GDP in the 1953-1973 period was equal to 7.8%, while the average annual inflation rate was equal to 4.1%. Following the recession of 1974, the average annual growth rate of GDP for the 1975-1979 period fell to 5.3% while the average annual inflation rate rose to 14.1%. From 1980 until euro area entry, i.e. for the period 1980-2000, the average annual growth rate fell even further to 1.5% while inflation initially rose and subsequently fell. The average annual inflation rate for the 1980-2000 period was 14.7%. Inflation remained low after euro area entry, but there were two distinct periods with regard to the growth rate. Growth recovered to an average annual rate of 4.1% during the period of the 'euro euphoria' 2001-2007, but turned negative, at -3.7% on average, during the 'great depression' 2010-2016. Unemployment which had fallen during the period of 'euro

[25] Since the quantity and quality of statistical data is much higher during this period, one can describe and analyse most of the aspects of the economy of Greece in greater detail and with higher confidence.

Figure 9
Growth, Inflation and Unemployment, 1950-2019



Source: OECD, Economic Database, and EU Commission, AMECO Database (November 2020).

euphoria', exploded during the 'great depression', with the unemployment rate peaking at 27.5% of the labour force in 2013, from 7.8% in 2008.

In the remainder of this section we take a closer look at the developments of this cycle, focusing on both its political and economic aspects.

IV.1 Post-War Reconstruction and the Greek Growth 'Miracle'

Following the end of the civil war, the fiscal consolidation of the early 1950s, the devaluation of 1953 and the monetary reform of 1954, the conditions were created for a rapid reconstruction and recovery of the Greek economy. What followed was a real economic 'miracle'. The average annual growth rate of real GDP per capita between 1953 and 1973 was 6.8%. In 1973, per capita GDP stood at $ 10,956 (in 2011 prices), almost four times higher than in 1952. At the same time, monetary stability was maintained, as inflation fell and remained very low, while the exchange rate of the drachma remained constant against the US dollar for almost twenty years.[26]

[26] See Sweet-Ecott (1954) and, more recently, Politakis (2018) for accounts of the early years of the post-war reconstruction. Mazower (2000) and McNeill (1978) survey the broader changes until the early 1960s and the early1970s respectively.

The end of the civil war marked a new period for the Greek economy, as one of the most important obstacles to the stabilisation and reconstruction of the economy was removed. Despite the fact that for several more years the political situation remained unstable, the conditions proved right for one of the longest periods of rapid economic growth and monetary stability experienced in modern Greece.

The foundations for the impressive course of the Greek economy in the twenty years between 1953 and 1973 were laid in the early 1950s. Had it not been for certain critical decisions and choices in the beginning of that period, such as the fiscal and monetary stabilisation, the devaluation of 1953 and the monetary reform of 1954, and for the continuity and consistency that characterised economic policy throughout the period, the course of the Greek economy might not have been so positive.

In addition, the 1953-1973 period was one of the rare periods in Greece's history during which the economic policy of the country was not based on foreign borrowing and was not interrupted by external debt crises. Aggregate domestic investment, which was high and the key to growth, was financed through domestic savings. This allowed for a long period of rapid economic growth without balance of payments and external debt crises.

Although the trade balance remained in deficit, the current account deficit, which determines the accumulation of external debt, was relatively low. The reason was the large external surpluses in services, due to receipts from shipping and tourism as well as immigrant's remittances. The current account deficit was low, and it was not financed by external borrowing, as in so many other instances in the past, but by foreign direct investment and autonomous capital inflows from abroad.

After the devaluation of 1953 and the monetary reform of 1954, the drachma became closely linked to the dominant international currency, the dollar, and its exchange rate was kept stable for two decades, in the context of the Bretton Woods system of fixed but adjustable exchange rates of the post-war period. Through the dollar, the drachma also achieved a stable relationship with gold, something that had been the aim of Greek monetary policy since at least the 1870s. The domestic value of the drachma also remained relatively stable.

A number of international and domestic factors also seem to have accounted for these positive developments. These include the long period of peace, despite the escalation of the Cold War, the positive international economic environment, and especially the significant growth of international trade and the downward trend of the relative prices of raw materials. Domestically, these positive external factors were reinforced by Greece's strategy of economic development and monetary and fiscal stability.

The international political and economic institutions created after the end of World War II played an important role. The United Nations, the Bretton Woods system, the General Agreement on Tariffs and Trade (GATT), the Organisation for Economic Co-

operation and Development (OECD), the North Atlantic Treaty Organisation (NATO), the European Communities (EC) have been the main ones. They promoted political, defence, and economic cooperation between the countries of the 'western alliance', which included Greece. This enhanced cooperation mitigated the economic side effects of the Cold War and promoted peace and free trade.

The post-war political and social regime of Greece and the role it played in encouraging private and public investment were also critical. There was a relatively free operation of markets but also a significant improvement in the efficiency of the Greek public administration. This was of paramount importance, as the state played a crucial role in channelling the available savings to investment through the banking system and also attracting foreign direct investment.

IV.2 Political Developments after the Civil War

The end of the civil war led to a political regime based on the marginalisation of the 'losers', i.e. the supporters of the Communist Party of Greece (KKE) and the left in general.

In this context, a significant proportion of Greek citizens, those who were considered 'communists' or 'fellow travellers' of the communists, were deprived of some of the fundamental constitutional rights, as a 'certificate of social conformity' was used in order to restrict their access to jobs, especially in the civil service, and for other discriminatory practices. The gradual escalation of the Cold War internationally facilitated these practices, which included expulsions from the security forces, the army and the judiciary.

On the other hand, the traditional political parties were fragmented. This was reflected in the elections of March 5, 1950, when three parties, the People's Party under Konstantinos Tsaldaris (18.8% of the vote), the Liberal Party under Sophocles Venizelos (17.2% of the vote) and the National Progressive Party Union of the Centre (EPEK) under Nikolaos Plastiras (16.4% of the votes) almost tied. The left, which went to the polls as the Democratic Party came in fifth with just 9.7% of the vote.

After a series of short-lived coalition governments of the centre (the Liberal Party and EPEK), and the adoption of the Constitution of 1952, the elections of November 16, 1952, were won by a new party of the right, the Hellenic Rally, formed by Alexandros Papagos, a former Army Chief of Staff during the Greek-Italian war (1940 - 1941) and during the last phase of the civil war.

Papagos took over as Prime Minister. On April 9, 1953, the government, on the proposal of the Minister of Coordination, Spyros Markezinis, proceeded to devalue the exchange rate of the drachma by 50% against the dollar, linking the exchange rate of the drachma with the dollar and the major international currencies, within the rules of its system (Bretton Woods of 1944). This decision, combined with the monetary reform of 1954, which set the new drachma at 1000 old drachmas, made a

decisive contribution to the stabilisation of the economy and its subsequent impressive course.

On October 5, 1955, after the death of Papagos, King Paul, to the general astonishment, instructed Konstantinos Karamanlis, the 48-year-old relatively unknown Minister of Transport and Communications, to form a new government, bypassing the two deputy prime ministers.

Karamanlis formed a government that received a vote of confidence in Parliament. Shortly afterwards, he contested and prevailed in the 1956 elections with a new party, the National Radical Union (ERE), which replaced the Hellenic Rally of Papagos. He remained prime minister for almost eight years, winning elections in both 1958 and 1961. He resigned on June 19, 1963 after a disagreement with King Paul I.

The eight-year Karamanlis period was linked to the consolidation of political, fiscal and monetary stability and the acceleration of Greece's economic development.

In the elections of November 3, 1963, the relative majority was won by the Union of the Centre under George Papandreou. As Papandreou did not have an absolute parliamentary majority and did not want to rely on the votes of the left, he resigned, having provided financial benefits to civil servants and various other social groups, calling for new elections. In the elections of February 16, 1964, he won the absolute majority with 52.7% and 170 seats in Parliament.

Papandreou remained Prime Minister until July 15, 1965, when he resigned after a clash with the new King, Constantine II over the control of the Ministry of Defence. His resignation was followed by the appointment by King Constantine of successive prime ministers by the Centre Union itself, until one of these secured a vote of confidence in Parliament. The politicians of the Centre Union who participated in these governments, as well as their supporters, were called 'apostates'. This was followed by a two-year period of political instability that finally paved the way for the coup of April 21, 1967.

On April 21, 1967, while elections were called for May 28, a group of army officers (junta), led by Colonel George Papadopoulos, seized power in a coup. King Constantine, after participating in a failed attempt to topple the colonels, fled to Italy and then Britain. From 1967 to 1974 Greece was ruled by a military dictatorship. The period of dictatorial rule lasted until July 23, 1974, i.e. seven years.

IV.3 The Post-War Strategy of Economic Development

From 1951 to 1955, the centrist governments and the government of Papagos that followed had promoted the stabilisation of public finances, in view of the phasing

out of the Marshall Plan aid. Monetary stabilisation was also achieved, following the 1953 devaluation of the drachma and the monetary reform of 1954. [27]

The economic strategy of the Karamanlis governments of the 1950s and early 1960s was based on the doctrine of political, fiscal and monetary stability, but also significant state intervention.

The regime was anything but 'laissez-faire'. 'State corporatist' would be a better description. A large number of government agencies were created, labour union activity was heavily controlled, and the banking system was tightly regulated through the Currency Committee and the Bank of Greece. Bank credit was channelled to large enterprises and investment projects at low interest rates. However, the role of the state in the economy was very small, outside the areas of public administration, banking, electricity and telecommunications. Most prices were determined freely, although the prices of 'necessities' were subject to controls. In an era of low inflation, these controls did not seem to be particularly distorting. In foreign trade, domestic firms enjoyed significant protection, despite the gradual phasing out of tariffs, following participation in the GATT and, after 1961, Greece's association agreement with the EC. Labour unions were controlled by the government, a significant factor behind uneventful industrial relations and wage moderation. Business taxes were low, and provisions for the protection of property rights and accelerated depreciation ensured confidence and a high rate of return on investment. The state would also actively seek foreign investors, to whom it would provide favourable terms and incentives, while in some cases it would also undertake the establishment of key industries itself.[28]

These institutional characteristics were among the crucial determinants of Greece's high growth rate during 1950-73. The two main pillars of the development strategy were high investment and monetary stability.

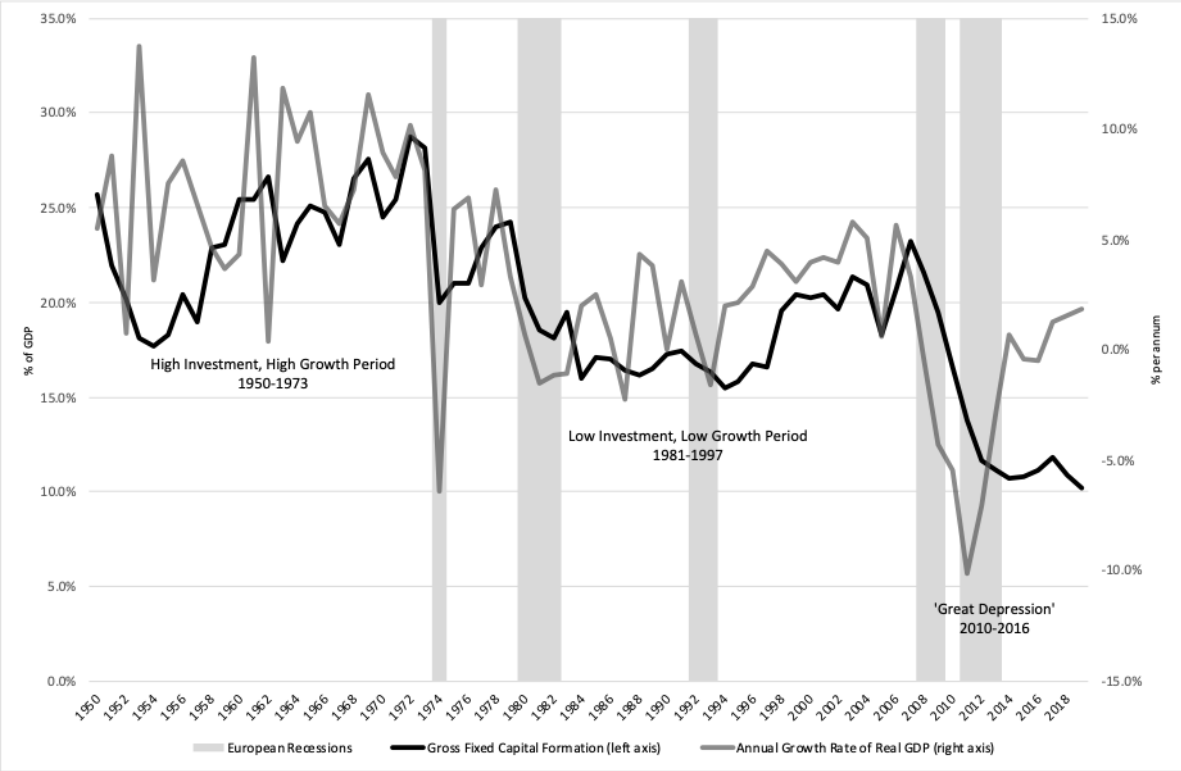
The evolution of investment in fixed capital relative to Greece's GDP is depicted in Figure 10. In the 1950-1973 period, investment was on average equal to 23.5% of GDP. As a result, the average annual growth rate of GDP rose to 7.4%. Never before had Greece experienced such high growth rates for such a long period. After 1974 the investment fell. Between 1981 and 1997 it had fallen to an average of 18.4% of GDP. As a result, the annual GDP growth rate fell to 1.7%.

In the initial post-war effort to rebuild its economy, Greece had the advantage of significant financial assistance, through the Marshall Plan, a plan that benefited

[27] This sub-section is partly based on Alogoskoufis (1995). For more detailed accounts along similar lines (in Greek) see Alogoskoufis and Lazaretou (2002) and Iordanoglou (2020).

[28] As emphasized by Koliopoulos and Veremis (2002), p. 107, 'The state had a considerably enhanced role in the post-war era. By assuming the entire burden of reconstruction and the allocation of massive foreign aid on the one hand, and the promotion of nationalist orthodoxy on the other, it increased its role in society. State planning, involving regulation of prices, the exchange rate and investment, and the extension of credit to the private sector, made the state the motor of the much-sought-after economic growth.'

Figure 10
The Evolution of Gross Fixed Capital Formation in Greece, 1950-2019



Source: OECD, Economic Database, and EU Commission, AMECO Database (November 2020).

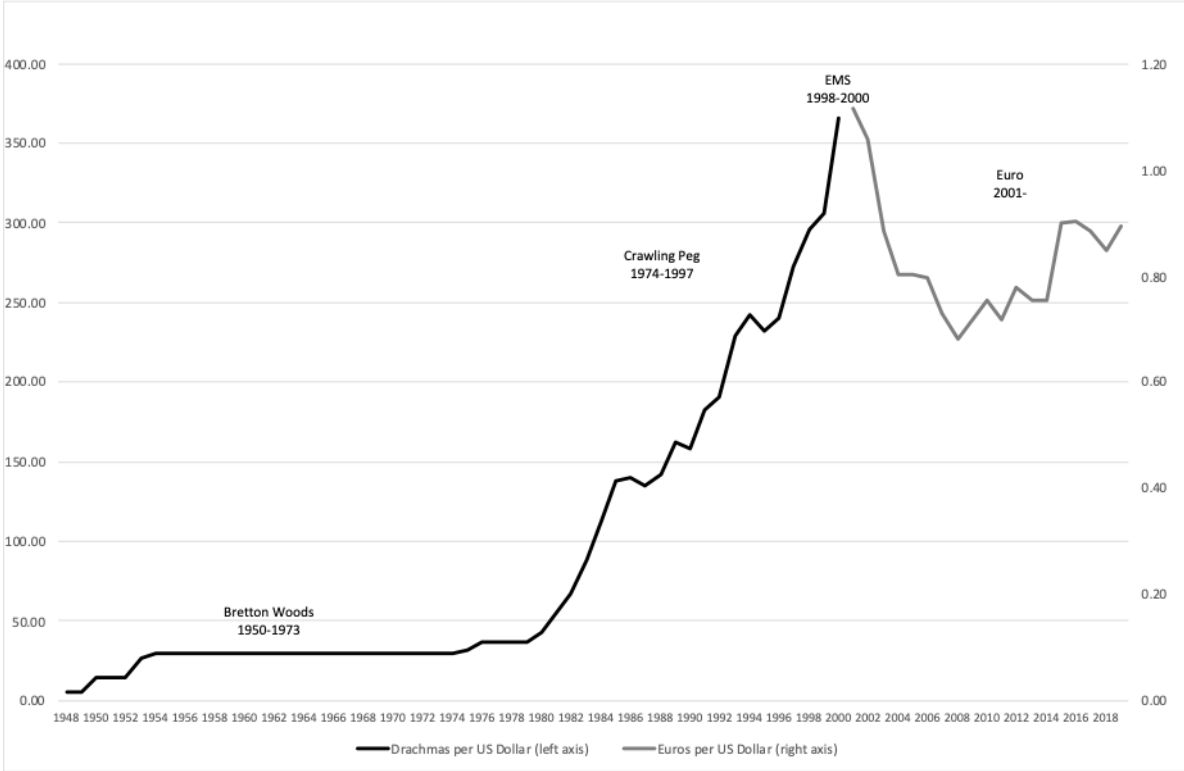
almost all Western European economies. In addition, a central choice for Greece was to participate in all the post-war international economic institutions of the 'western alliance'.

Greece was a founding member of the International Monetary Fund and the World Bank, the General Agreement on Tariffs and Trade (GATT), and the Organisation of European Economic Cooperation, which became the Organisation for Economic Co-operation and Development (OECD). In addition, in the early 1960s, under Karamanlis, Greece signed an association agreement with the then newly formed European Economic Community (EEC).

By 1963 the Greek economic landscape had changed dramatically, and Greece had developed into a rapidly growing economy. Subsequent governments did not reverse the direction of this strategy, although they certainly modified it. For example, the Papandreou governments of 1963-1965 embarked on measures of political liberalization, redistribution of income for the benefit of wage earners and the introduction of free education at all levels of education. However, they did not change the main directions of economic policy.

The second pillar of the economic strategy was monetary stability. This was pursued through fiscal discipline and the stabilisation of the drachma's exchange rate vis-a-vis

Figure 11
Nominal Exchange Rates against the US dollar, 1950-2019



Source: IMF International Financial Statistics and EU Commission, AMECO Database (November 2020).

the US dollar, in the context of the Bretton Woods system of fixed but adjustable exchange rates.

The evolution of the exchange rate of the drachma against the US dollar is depicted in Figure 11. After 2001 the drachma was replaced by the euro, and hence we depict the euro exchange rate after that date. Following devaluations in 1950 and 1953, the drachma remained constant against the dollar at 30 drachmas per dollar until 1973. The stability of the exchange rate was the anchor for Greece's low inflation policy during this period.[29]

Since 1980 the drachma entered a cycle of continuous devaluations as Greece entered a period of fiscal and monetary destabilisation. The devaluations took place continuously, through the adoption of a 'crawling peg' policy, that sought to compensate for Greece's positive inflation differential with its OECD partners since 1973. There were also instances of discrete devaluations, as in 1983, 1985 and 1998. Between 1998 and 2000, Greece participated in the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). This was a pre-condition for entry into the euro area, which took place in 2001, bringing the policy of continuous devaluations to an end and ushering in a period of low inflation.

[29] See Alogoskoufis and Philippopoulos (1992) and Alogoskoufis (1995) for evidence on this, especially in contrast to the exchange rate policy followed after 1975.

The annual inflation rate remained at very low levels during 1953-1973, and this period was one of the rare historical periods during which average annual inflation in Greece did not exceed the inflation rates of the developed European economies and the USA. The only other one is the recent period of euro area participation since 2001.

Even after the military coup of April 21, 1967, and the seven-year dictatorship that followed, the period of rapid economic growth continued. For the first few years, the governments of the dictatorship largely continued the policy of the previous fifteen years. However, there was a gradual shift to an excessive fiscal and credit expansion, as well as a shift from financing investment in manufacturing to financing private construction and tourism. The shift to an excessively expansionary aggregate demand policy led to a rise in current account deficits and eventually to the destabilisation of the economy and the significant rise of inflation in the early 1970s.

Internationally, this sub-period ended with the collapse of the Bretton Woods system of fixed exchange rates in 1973, which initially led to international monetary instability, the international oil crises and episodes of international stagflation.

Domestically, it ended with the rise in inflation and the student uprising in the Technical University of Athens in 1973, followed in 1974 by the military coup in Cyprus, the subsequent Turkish invasion in Northern Cyprus, and the collapse of the dictatorship and the restoration of democracy in Greece.

IV.4 The Restoration of Democracy and EU Accession

Following the collapse of the dictatorship on July 24, 1974, after the Turkish invasion of Cyprus, former Prime Minister Konstantinos Karamanlis was invited back to Greece after 11 years in exile in Paris. Karamanlis took over as head of a national unity government.

The Constitution of 1952 was 'resurrected', without the provisions concerning the Monarchy, and the Communist Party, outlawed since the civil war, was allowed to operate within the law. At the same time, new political parties were created in place of some of the parties that existed before the dictatorship. The first was New Democracy (ND), led by Konstantinos Karamanlis and the second the Panhellenic Socialist Movement (PASOK), led by Andreas Papandreou, son of the Premier of the 1960s, who had not participated in the government of national unity. In addition, the Union of the Centre, one of the major parties of the period before the dictatorship, was also resurrected.

The first free elections in a decade, on 17 November 1974, marked a turning point in the normalisation of political life. The elections resulted in a government led by Karamanlis, with a strong popular mandate, while also allowing all political parties in the country to record their electoral appeal. In addition, they produced a Parliament charged with the task of drafting a new Constitution.

On November 22, 1974, a referendum was called on the form of government. The choice was between a Parliamentary Monarchy and a Parliamentary Republic. This took place on December 8, 1974 and resulted in a 69.2% majority in favour of a Republic.

The new Constitution was approved by Parliament on June 7, 1975, and the 3rd Hellenic Republic, was established as a result. The relatively smooth transition from dictatorship to the Republic, and the long and relatively smooth subsequent operation of the Republic constitute a genuine 'democratic miracle'.

The restoration of democracy in 1974, after the collapse of the dictatorship, marked the beginning of the end of the great social and political divisions created by the civil war in the late 1940s.

It also marked the beginning of a process of political emancipation for large social groups, which, despite having participated in the benefits of economic growth, considered themselves politically marginalised during the past twenty-five years. Such social groups included farmers, private and civil servants, the self-employed, pensioners and owners of small and medium-sized business enterprises. They added up to a large part of the middle class that had emerged in the period of rapid economic growth of the previous quarter of a century.

These social groups saw the restoration of democracy as an opportunity to press their aspirations for a more active participation in the political process, for the redistribution of income and wealth, and for the further convergence of their way of life and standards of living with those of the most developed economies in Western Europe. These social demands evolved into one of the main drivers of Greek politics after the mid-1970s.

These groups, which initially rallied behind Karamanlis, gradually found their political expression mainly in PASOK, the party founded by Andreas Papandreou and not in the Union of the Centre or the parties of the left. This led, relatively quickly, to the challenge and eventual change of a very large part of the institutional structure that characterised Greece for the twenty-five years between the end of the civil war in 1949 and the restoration of democracy in 1974.

In 1981, Greece joined the European Economic Community (EEC), a Community that later evolved into the current European Union (EU). The application for membership was submitted in June 1975, shortly after the restoration of democracy. The accession was completed after a relatively short period of preparation, despite the objections from the left of centre opposition parties in Greece and the reservations of various European governments. The successful outcome was mainly due to the persistence and efforts of the then Prime Minister Constantine Karamanlis who believed that the accession would contribute not only to the consolidation of the Republic, but also to Greece's economic and social progress. After all, it was under the premiership of Karamanlis that Greece had signed an association agreement with the European Economic Community (EEC) in the early 1960s.

It has to be noted that, due to its geographical location, which implied a long distance from the main markets of the EU, tariff protection until the mid-1970s, the period of the dictatorship, and the impact of the first oil shock of the 1970s, the Greek economy was relatively unprepared in the early 1980s for its full participation in the much more efficient and competitive European economy.

The economic policy of the pre-accession period 1975-1979 was mainly shaped by three factors: 1. The social pressure for a redistribution of income and wealth, 2. The dominance of social and political perceptions that contributed to the expansion of the economic role of the state, and 3. The preparations for Greece's accession to the EU.

These forces influenced almost all economic policy choices in the period until EU accession.

As a result of the economic policy of this period, there was a relatively satisfactory recovery of the Greek economy from the recession of 1974, unemployment remained low, inflation fell slightly from 27% in 1974, and there were significant current account surpluses. In addition, until 1980, the budget deficit remained low, below 3% of GDP, and there was a marked improvement in wages and pensions in real terms, despite a slowdown in productivity growth.

However, the second oil crisis that erupted in 1979 led to a new episode of stagflation. Real GDP growth fell sharply from 7.2% in 1978 to 3.3% in 1979 and 0.7% in 1980. 1981 marked the second post-war recession since 1974, with real GDP declining by about 1.6%. Annual inflation almost doubled from 12.5% in 1978 to 25.0% in 1980 and 24.5% in 1981. Unemployment also doubled from 1.8% of the workforce in 1978 to 4% in 1981. Finally, the deficit of the general government more than tripled to 9% of GDP in the 1981 election year, from just 2.6% in 1980.

Thus, 1981, the year of EU accession, was also a year of destabilisation for the Greek economy, due to the second international oil crisis and the internal electoral cycle.

IV.5 Economic Destabilisation and Incomplete Adjustment since the 1980s[30]

The Greek economy, which joined the EEC in 1981, was an economy with problems of international competitiveness, which had been exacerbated by the oil crises and became even more serious after the reduction of tariff protection and the generous incomes policies of the 1975-1978 period. On the other hand, until 1980, the fiscal situation was not particularly worrying, as public debt was very low relative to GDP.

Although the Greek economy recovered between 1975 and 1978, in 1979, following the second international oil crisis, its course was reversed.

[30] This sub-section is partly based on Alogoskoufis (1995, 2019).

In a difficult economic juncture, due to the second oil crisis and the international recession, on October 18, 1981, PASOK, led by Andreas Papandreou, was elected by an overwhelming majority.

The new government, which was elected on a promise of 'change', in its efforts to improve the distribution of income and expand the welfare state, pursued a highly expansionary fiscal and monetary policy, in stark contrast to the policies implemented by the other EEC countries at that time. This soon set the economy of Greece apart from the economies of its European partners.

The already high budget deficits were not reduced, resulting in an explosive rise in public debt. In addition, in the midst of a recession, there were additional wage increases, which had little relation to the lacklustre productivity developments. This led to a further deterioration in Greece's international competitiveness. Automatic wage indexation (ATA) was also introduced to protect real wages and pensions, which resulted in the maintenance of high inflation. The losses of large indebted private sector companies, hit by the oil shocks of the previous decade, were taken over by the state, through a policy of 'socialisation'. At the same time, many of the major projects planned by the outgoing government in order to improve the infrastructure of the economy were postponed for many years. Corporate and income tax rates were also raised, taxing the official sector but not affecting the majority of the self-employed who evaded income taxation. Hence, increases in tax revenue proved insufficient relative to the large increases in government expenditure.

However, it has to be noted that many of the policies of the governments of Andreas Papandreou, although financed through inflation and debt, resulted in improvements in the distribution of income, in favour of wage earners, the self-employed and pensioners. In addition, the flow of significant assistance through the EU Common Agricultural Policy and, gradually, Regional Policy, help improve the condition of farmers and the distribution of income across Greece's regions. Finally, significant social measures were adopted, such as the modernisation of family law, the improvement of social services and the creation of a National Health Service.

Yet, the end macroeconomic result of these policies was a prolongation of stagflation, fuelled by low competitiveness, monetary and fiscal instability and a lack of investor confidence.

This policy continued throughout most of the 1980s, with a short break during the two years 1986-1987, when an attempt was made to address a balance of payments crisis. A stabilisation program was adopted based on a significant devaluation of the drachma and a freeze on wages and pensions. However, this stabilisation program, although draconian in terms of wages, salaries and pensions, was unbalanced and short-lived. It did not focus on fiscal adjustment, despite the rising public debt levels, and was quickly reversed in 1988. Thus, it could not change the general picture of the 1980s.

Since 1980 and for about a decade the main features of the Greek economy had been stagflation, fiscal destabilisation, almost continuous devaluations of the drachma and periodic current account crises. The average growth rate of real GDP per capita in the five years 1980-1984 was -0.9%. After 1985 the growth rate recovered. In the period 1985-1989, the average annual growth rate of real per capita GDP was 1.4%.[31]

By 1989, after the reversal of the stabilisation program of 1986-1987, macroeconomic conditions had again become particularly critical. Budget deficits had widened, 'invisible' unrecorded debts had accumulated throughout the public sector, the social security system was on the verge of collapse, foreign exchange reserves had fallen dramatically, and inflation was accelerating.

The evolution of Greece's public debt since the 1970s is depicted in Figure 12. The 1980s was the first time that Greece's public debt to GDP ratio rose so dramatically in peacetime. Although public debt was chiefly internal, it proved impossible to reduce in subsequent years. Following its subsequent internationalisation, when Greece entered the euro area, it became one of the key factors behind Greece's vulnerability following the international financial crisis of 2008-2009.

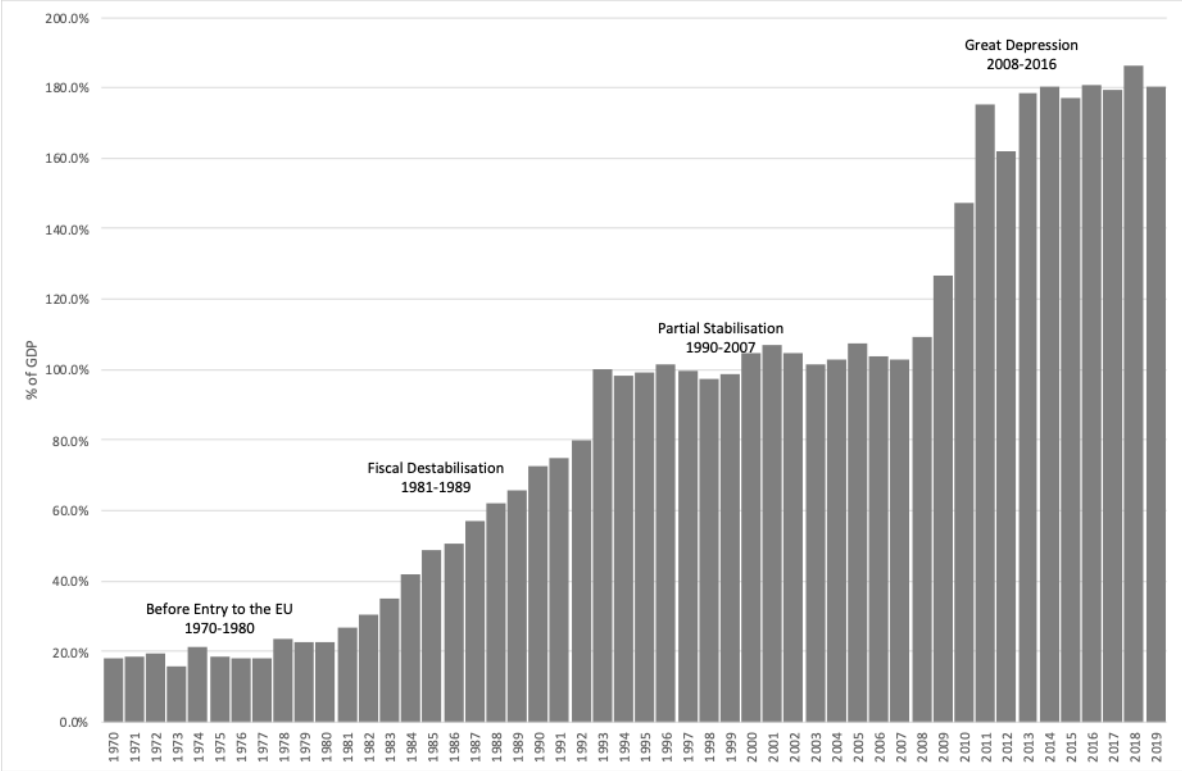
The change of the electoral system to a system of proportional representation by the outgoing Papandreou government, just before the elections of 1989, led to two consecutive inconclusive electoral contests and a period of political instability between 1989 and 1990. Because of the electoral system, and despite its large majority in the electorate, New Democracy, the main opposition party, led by Constantine Mitsotakis, could not attain a parliamentary majority. It only managed to get a parliamentary majority of one deputy in a third electoral contest, in April 1990.

In view of the deteriorating fiscal situation, the new government adopted a fiscal adjustment program that gradually led to a significant reduction in budget deficits and, eventually, the creation of primary surpluses. At the same time, during 1990-93, the ailing social security system was reformed, and a program of privatisations and economic liberalisation was adopted. The monetary financing of the public sector deficits was gradually abolished and the rate of depreciation of the exchange rate was significantly reduced, in the context of the so-called 'hard' drachma monetary policy, in order to fight inflation. Capital controls were also gradually abolished.

In 1991, Greece signed the Treaty on European Union, which provided for the re-branding of the European Economic Community (EEC) as European Union (EU), and the creation of Economic and Monetary Union (EMU).

[31] This is based on the data of the AMECO database of the EU, based on current exchange rates. The Maddison data, which adjust real per capita GDP for PPP exchange rates, show higher growth rates, i.e., 0.4% for 1980-1984 and 2.2% for 1985-1989.

Figure 12
Gross Debt of the General Government, 1970-2019



Source: EU Commission, AMECO Database (November 2020).

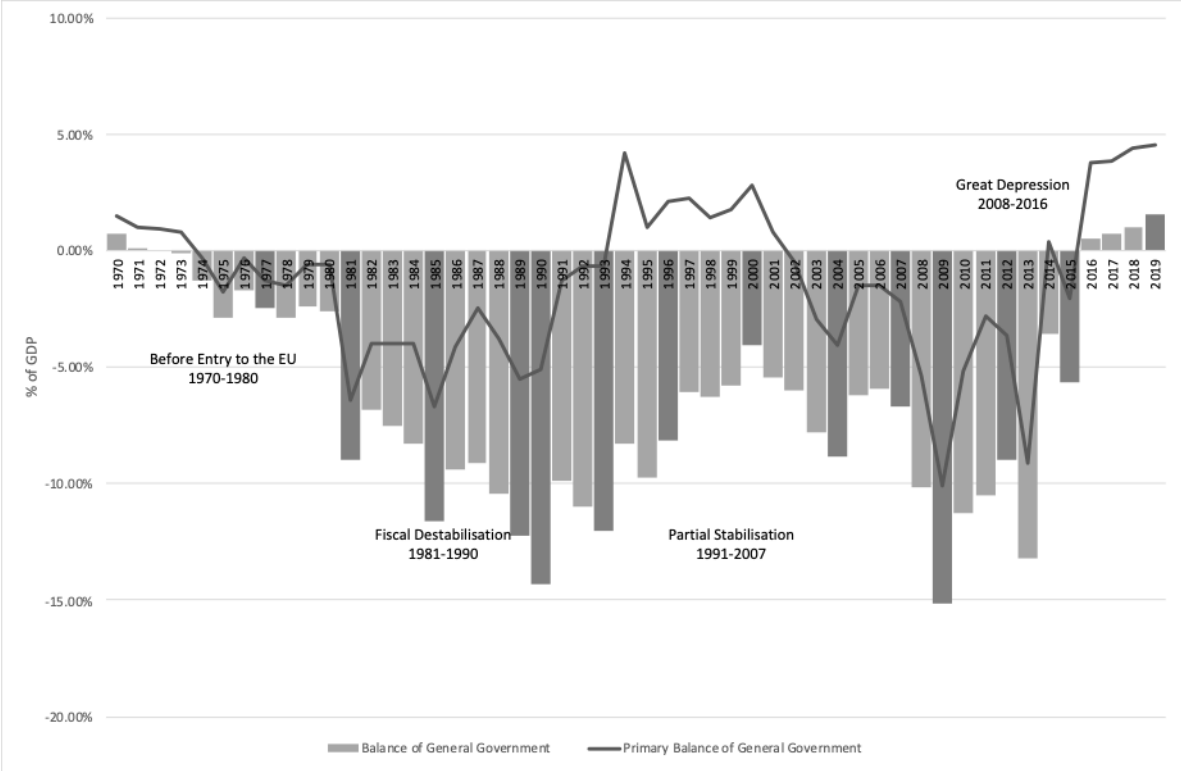
The move towards a single currency required the submission by all EU countries of convergence programs that would help them meet specific fiscal and monetary criteria, known as the 'Maastricht criteria'.

In March 1993, the first Convergence Program of the Greek Economy was submitted and approved, based on a policy of further fiscal adjustment and structural reforms. The program was revised in September 1994 by the new PASOK government that emerged following the October 1993 early elections. The ailing Andreas Papandreou returned to the Premiership. He was succeeded in early 1996 by Constantine Simitis, who went on to win two consecutive elections, in late 1996 and early 2000. In was during the Premiership of Simitis that Greece joined the eurozone in January 2001, on the basis of this revised program, two years after the original 11 member states.

The policy of nominal convergence had specific requirements, which were specified in the Treaty on European Union of 1992. These included fiscal adjustment, the liberalisation of capital movements, the convergence of inflation and nominal interest rates, as well as the stabilisation of exchange rate fluctuations, within the framework of the Exchange Rate Mechanism of the European Monetary System.

In the early 1990s, a policy of steep fiscal adjustment was adopted which transformed the large general government deficits into primary surpluses. However, after 1994, the primary fiscal adjustment virtually ceased, and, under the Simitis

Figure 13
Primary and Overall Balance of the General Government, 1970-2019



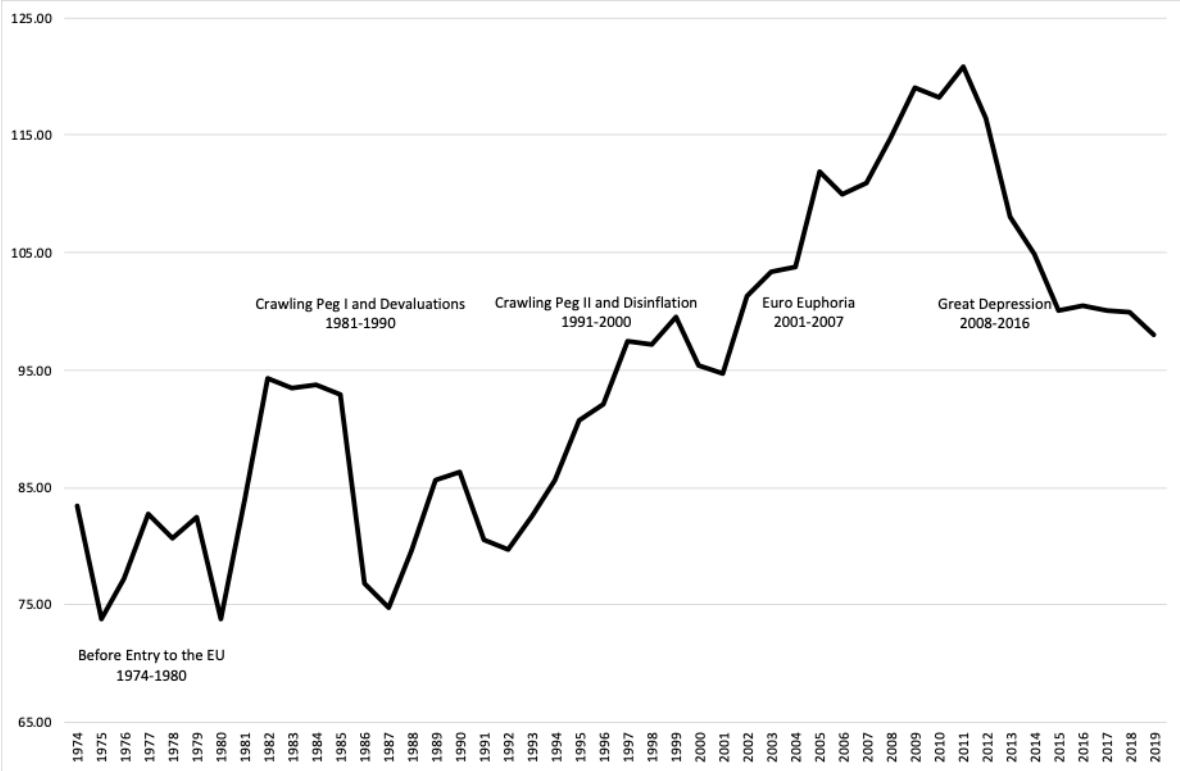
Source: EU Commission, AMECO Database (November 2020). The darker bars for the General Government Balance indicate years of a general election. In 1981 and 2009 general elections coincided with an international recession.

governments, the policy of convergence was based almost exclusively on a restrictive monetary policy and falling inflation and nominal interest rates, through the so called 'hard drachma' policy. Further adjustment of the primary balance was not pursued after 1994.

These developments are depicted in Figure 13. Both the primary and the overall balance of the general government in Greece deteriorated sharply during the 1980s. Deficits were particularly large and usually increased in election years. The high deficits led to the large increase in general government debt. Adjustment of the primary balance the general government took place mainly in the early 1990s, but was effectively halted in 1994, and, after the year 2000, it was gradually reversed. Between 1994 and 1999 the further adjustment of the overall fiscal balance was based mainly on the reduction of interest payments, through the reduction of inflationary expectations and nominal interest rates, as there was a very small further adjustment of the primary surplus since 1994.

The restrictive monetary and exchange rate policy gradually led to the fall of inflation and nominal interest rates, but also to the further deterioration of international competitiveness. The reduction in nominal interest rates, due to the reduction of inflation expectations, led to a reduction in nominal expenditures for interest

Figure 14
The Real Effective Exchange Rate vis-a-vis the EU-15, 1974-2019



Source: EU Commission, AMECO Database (November 2020), 2015=100. The real effective exchange rate is measured by relative unit labor costs in a common currency. A rise in the real effective exchange rate signifies a loss of international competitiveness.

payments on the high public debt, and, thus, to the gradual reduction of overall nominal budget deficits.[32]

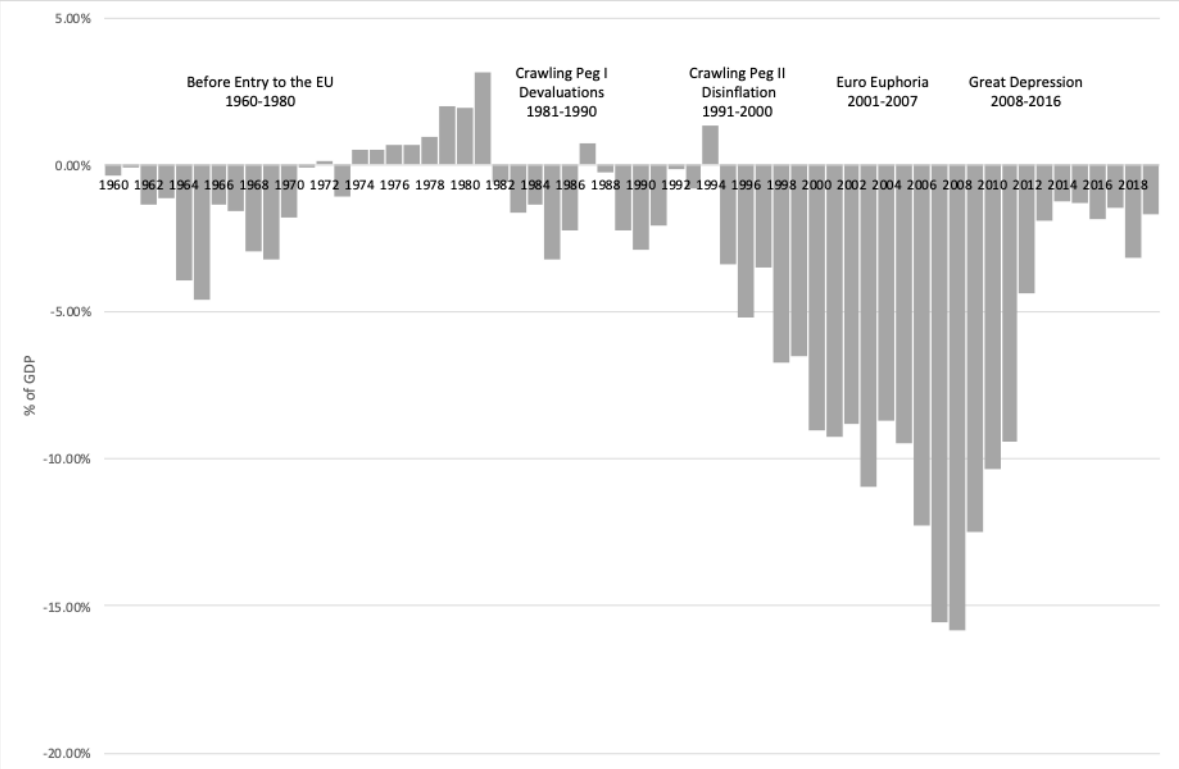
In addition, due to the fact that, real wage increases significantly exceeded productivity growth, the international competitiveness of the economy, measured by relative unit labour costs, deteriorated by more than 25% in the period of disinflation, between 1992 and 1999.

The evolution of the real exchange rate of Greece, as measured by relative unit labour costs, is depicted in Figure 14. A rise in the real exchange rate signifies a loss in international competitiveness.

The real exchange rate rose significantly in the early 1980s, fell as a result of the stabilisation program of 1986-1987 but rose again after that program was abandoned. After another correction in 1990-1992, it has been rising almost

[32] The primary government balance consists of the difference between current government revenue and primary government expenditure, which excludes interest payments on public debt. The overall government balance consists of the difference between current government revenue and total government expenditure, including interest payments on public debt. For a high debt high inflation country, such as Greece in the early 1990s, there was a large gap between the two, as interest payments on government debt were high due to both the high level of public debt and high nominal interest rates, which reflected high inflation expectations and a relatively high devaluation risk.

Figure 15
The Evolution of the Current Account of the Balance of Payments, 1960-2019



Source: EU Commission, AMECO Database (November 2020).

continuously, both during the period of convergence and disinflation and after Greece's euro area entry. A significant correction occurred only after the 2010 crisis and the adjustment programs that followed, but clearly the correction did not suffice to bring the real exchange rate back to its level of the early 1990s.

As a result of the inadequate fiscal adjustment, and despite the deterioration in international competitiveness, the rate of economic growth gradually but significantly improved during the 1990s. The average annual growth rate of real GDP per capita in the 1990s was 1.4%, compared with 0.2% in the 1980s. This was probably due to the effects of increased confidence and the gradual reduction of real interest rates, as eventual euro area membership started being discounted by investors and the markets.

IV.6 Euro area Membership, Euphoria and Crisis

At the June 2000 EU summit, it was decided that Greece could join the euro area and thus replace the drachma with the new single European currency, the euro. This led to a further rapid and large fall in real interest rates, due to the elimination of the risk of currency devaluation. The fall in real interest rates in turn led to a reduction in

private savings and relatively large increases in aggregate investment (see Figure 10).[33]

The growth rate of real GDP per capita remained relatively high at 3.2% on average during the 2000-2008 period. This was mainly the result of high increases in both private consumption and investment because of the low real interest rates, as well as a relatively expansionary fiscal policy. At the same time, the widening savings-investment imbalance and deteriorating international competitiveness led to an unprecedented widening of current account deficits and a steady increase in external debt.

The evolution of the current account of Greece since the 1960s is depicted in Figure 15. While Greece experienced current account surpluses in the latter part of the 1970s, in the 1980s the current account again moved into deficit. The short-lived stabilisation program of 1986-1987 briefly reversed this trend, but the current account moved into deficit as soon as it was abandoned. After another brief correction in the early 1990s, it started worsening again from the second half of the 1990s. As Greece's accession to the euro area was becoming more of a certainty, and nominal and real interest rates declined the current account kept worsening. This process was obviously affected by the deteriorating international competitiveness and the strong recovery of GDP growth. During the period of euphoria following euro area entry, the current account deficit increased significantly, due to the low real interest rates and the deteriorating international competitiveness. The international recession of 2008-2009 caused an additional increase of the current account deficit, due to the decline in Greece's revenues from exports and tourism. It was only after the crisis of 2010 and the adoption of the subsequent adjustment programs that these trends were gradually reversed, as a result of the great depression of aggregate demand and the improvements in international competitiveness.

At the beginning of 2010, Greece became one of the first victims of the international financial crisis of 2008-2009, due to its high external debt, its deteriorating external and fiscal imbalances (see Figures 13, 14 and 15), the change in the attitudes of international financial markets and the inability of the European Central Bank to act as a lender of last resort.

A crisis of confidence finally caused international financial markets to 'freeze' in early 2010 and the foreign debt refinancing program of the Greek government could no longer be implemented. The trigger for the crisis was the change in expectations in the markets, due to the rising indebtedness of Greece. The rising indebtedness was partly caused by the international recession and partly by the inadequate response of successive Greek governments, before and after the early elections of 2009 and the change in government. The domestic political 'blame game', before and after the elections, was also an important contributing factor.

[33] This sub-section is partly based on Alogoskoufis (2019, 2021).

Faced with a 'sudden stop' in international lending, and due to the inability of the European Central Bank to act as 'lender of last resort', Greece was forced to sign a 'rescue memorandum' in exchange for the financial support of the rest of the European Union. This was tantamount to another 'default', as it provided official financing of its immediate external debt obligations, under the condition of the adoption by Greece of a front-loaded economic adjustment program. The program was designed and monitored by a 'troika', consisting of representatives of the International Monetary Fund, the European Commission and the European Central Bank.

Due to the failure of the original adjustment program, there were two more programs, one in 2012 and one in 2015, which were reflected in respective 'memoranda'. The second adjustment program of 2012, unlike the first, also involved a significant 'voluntary' restructuring of Greece's debt. This reduced the debt burden but caused additional credibility problems both for the Greek state and the euro area economy. Furthermore, before the third adjustment program was finally adopted in 2015, there was another major crisis, following a referendum that essentially rejected it and nearly led to a so called 'Grexit', an expulsion of Greece from the euro area. This was averted at the last minute, due to the U-turn of the government of Alexis Tsipras, which finally agreed to the program, despite the outcome of the referendum.[34]

The implementation of these adjustment programs gradually led to the restoration of fiscal and external balance, but at the cost of the deepest and longest post-war depression of the Greek economy. Between 2008 and 2016 per capita real GDP fell by 25% and unemployment peaked at 27.5% of the workforce in 2013, compared to 7.8% in 2008 (see Figure 9).

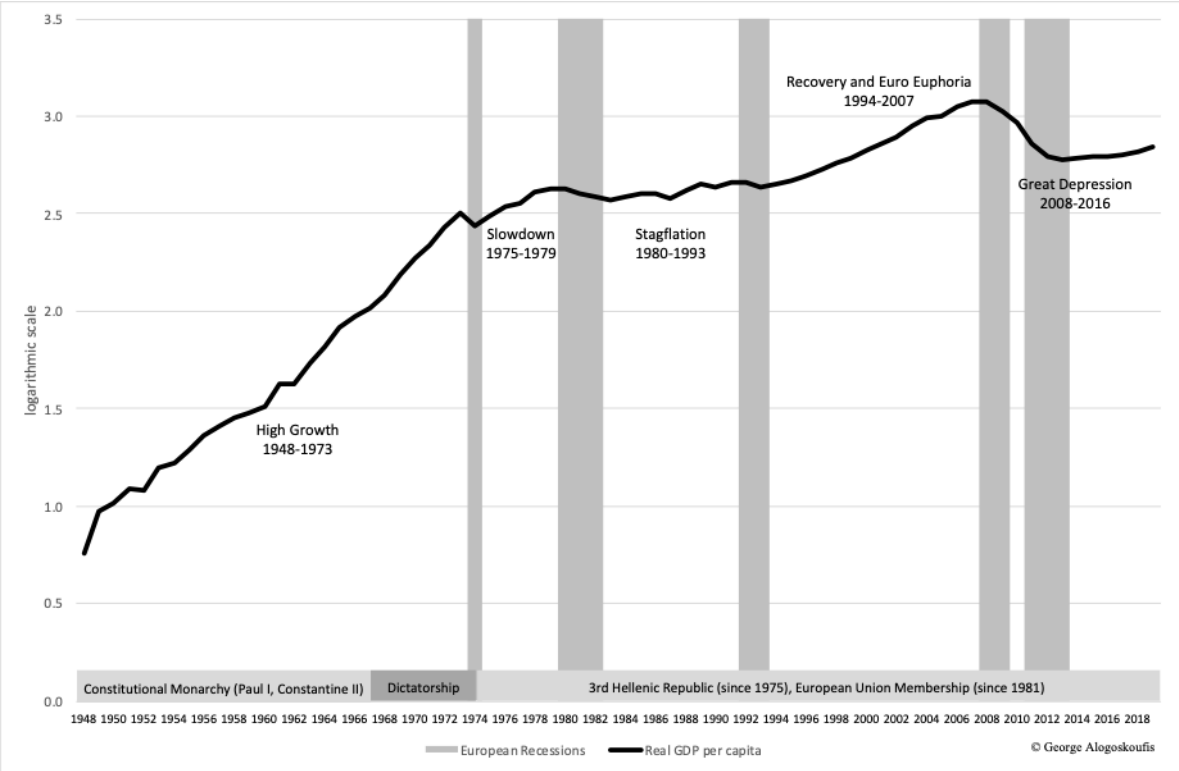
After 2016, a weak recovery began, and the adjustment programs were finally completed in 2018. However, Greece remained under a regime of enhanced surveillance, in the context of the implementation of the stability and growth pact of the euro area. At the beginning of 2020 Greece was confronted with a new major international economic crisis, due to the coronavirus pandemic.

IV.7 The Two Faces of Janus: Greek Economic Growth since the late 1940s

Like Janus, the god of Roman mythology, the economy of Greece has displayed two faces in the post-war historical cycle with regard to economic growth. One in the period up to 1973 and another after 1974.

[34] The international literature on the Greek economy has grown exponentially since the sovereign debt crisis of 2010 and is reviewed and discussed extensively in Alogoskoufis (2019, 2021).

Figure 16
The Evolution of Real per capita GDP, 1948-2019



Source: OECD, Economic Database, and EU Commission, AMECO Database (November 2020).

These two sides are apparent in Figure 16, which displays the evolution of Greece's real GDP per capita since 1948. One can easily distinguish between two long sub-periods. The sub-period of high economic growth and the longer sub-period of slowdowns, recessions and depressions.[35]

In the first sub-period, 1948-1973 the average annual growth rate of real per capita GDP was equal to 7.3%. At such a rate, living standards double every ten (10) years. In the twenty-five years between 1948 and 1973, living standards, as measured by real per capita GDP, rose by almost six times. To be more accurate, they rose by 5.7 times, from 2138 euros (at 2015 prices) in 1948, to 12235 euros in 1973. In section IV.3 we have already analysed how high investment rates and increases in total factor productivity contributed to this 'growth miracle' and how they were achieved.

In the second sub-period, 1974-2019, the average annual growth rate of per capita GDP was only equal to 0.8%. At this rate, it takes ninety (90) years for living standards to double. Furthermore, economic growth was not uniformly low during this sub-period. As can be seen from Figure 16, one can distinguish among four successive sub-cycles: The 'slowdown' of 1975-1979, the 'stagflation' of 1980-1993,

[35] The 'two faces of Janus' were first identified and analysed in Alogoskoufis (1995). A number of papers have explored this distinction since, including Bosworth and Kollintzas (2001), Gogos et al (2014) and Leounakis and Sakellaris (2014).

the 'recovery and euro euphoria' of 1994-2007 and the 'great depression' of 2008-2016.

During the 'slowdown' of 1975-1979 the average annual growth rate of per capita GDP was equal to 4.0%. Significantly lower that previously, but still quite high. During 1980-1993 the average annual growth rate was equal to 0.1%. Hardly positive and also accompanied by high inflation. Hence, the moniker 'stagflation' used for this sub-cycle. During 1994-2007 the average annual growth rate was equal to 3.2%. This was clearly a period of recovery in the growth rate. Since the recovery was driven by the prospect of euro area participation and included the period of euro euphoria 2001-2007, it is labelled as the sub-cycle of 'recovery and euro euphoria'. Finally, the period since the international financial crisis and recession of 2008-2009, the Greek 'debt crisis' of 2010, and the 'austerity' policy of 2010-2016 is labelled as the 'great depression'. The average annual growth rate of per capita GDP between 2008-2016 was negative and equal to -3.1%. Furthermore, the weak recovery since 2017 was interrupted again in 2020 by the covid-19 crisis.

Thus, as in the previous two historical cycles, the process of economic growth has been anything but smooth and uniform during the last historical cycle. It has displayed significant changes of direction and short-term fluctuations.

Yet, the fact remains that this has been the only historical cycle in which Greece managed to achieve a significant and sustained rise in living standards, as measured by real per capita GDP. Real per capita GDP rose by eight (8) times, from 2138 euros (at 2015 prices) in 1948, to 17120 euros in 2019. At the same time, especially since 1974, there has been a significant improvement in the distribution of income and social protection, through the development of a much more comprehensive welfare state. This is why we have labelled this last historical cycle as one of 'economic and social development'.

V. Determinants of the Transformations, Growth and Crises of Modern Greece

In order to analyse, interpret and contrast the three historical cycles of the Greek state and the economy of modern Greece, we shall focus on the interdependence of social and economic conditions, the dominant ideas that were the driving force of Greek society and the state, the institutions through which state policy was implemented and the geopolitical circumstances which influenced the direction of state policy and its effectiveness.[36]

[36] For alternative perspectives to the issues examined in this section, see Dertilis (2018), Kalyvas (2015), Koliopoulos and Veremis (2002), Kostis (2018) and Mouzelis (1978). Despite differences in focus and

The active role of the Greeks in shipping and the international trade of the Ottoman Empire after the 18th century, contributed to the gradual economic unification of Greece and the formation of a Greek-speaking Orthodox-Christian mercantile and maritime class. This class played a decisive role in the general awakening of the Greek national consciousness through its support of the Hellenic enlightenment and exploited the contradictions of the Ottoman system for the benefit of Hellenism. This was because this ruling class, due to its cosmopolitanism, was influenced by the European enlightenment of the 18th century earlier than the other ruling classes of the Ottoman Empire.

Due to this tradition, but also due to the social and economic conditions that prevailed within Greece, the Greeks adopted liberal and democratic ideas and principles from the beginning. This is reflected in the constitutions agreed upon during the struggle of independence. This left a political legacy which, despite the imposition of the Monarchy by the Protecting Powers, eventually led to the adoption of the constitution in 1844, the universal suffrage of men as early as 1847, parliamentary governments since 1875 and one of the longest parliamentary histories in Europe. Despite the often-turbulent political life and the relatively short periods of authoritarian regimes and dictatorships, the democratic tradition always surfaced and eventually prevailed.

The second key factor was geopolitical circumstances, which in critical junctures turned out to be favourable. The Greek state was created as a result of the struggle for independence. However, its creation served the strategic interests of three of the Great Powers of the time, Britain, France and Russia, which played a critical role in securing Greek independence. Geopolitical factors and developments thus played a major role both in the successful outcome of the struggle for independence and in the subsequent expansion and consolidation of the Greek state. They also played an important role after World War II and the civil war, when Greece became part of the 'western alliance' and later joined the European Union.

V.1 Social and Economic Conditions, the Role of Ideas and the Quest for Democratic Institutions

The interactions among social and economic conditions, ideas and political institutions had significant implications both for the preparations for the war of independence and for the subsequent political and economic course of the Greek state.[37]

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emphasis, these perspectives are not necessarily inconsistent either among themselves or with the perspective of the present paper.

[37] The role of institutions for economic performance was first pointed out by economic historians, as they viewed the accumulation of physical and human capital and technological progress as expressions of the process of economic growth and not as its fundamental determinants. In the view of North and Thomas (1973), North (1990), and in the view of many other economic historians, the fundamental explanation for comparative economic performance lies in differences in institutions. Economists turned their attention to the role of institutions, following the pioneering empirical study by

As early as the 18th century, the emergence of a prosperous and cosmopolitan mercantile and maritime class facilitated the re-awakening of the Greek national consciousness based on the ideas of the European enlightenment. This was critical for the preparations for the war of independence. These developments undermined the power of the Ottoman administration and eastern influences in general, reconnecting Greek-speaking Orthodox Christians with ancient Greece and western Europe. In this way the conditions were created for a revolution that was not only national, but also democratic and liberal. These conditions took shape after the creation of the 'Friendly Society', by Greeks of the diaspora. This 'secret' organisation, which initially had little impact, gradually expanded to a large part of Greek territory and played an important role in the preparations for the war of independence.[38]

The ideas of the enlightenment also played an important role in the political organisation of the Greeks during the revolution. The first local political regimes were established from the beginnings of the national struggle for liberation. These regimes, voted in by local Provincial Assemblies during the first year of the revolution, in 1821, aimed at the provisional administrative and military organisation of the Greeks. They also provided for the future establishment of a 'Parliament of the Nation'. The creation of these local regimes has been particularly important. These regimes contained, albeit imperfectly, principles of political self-determination and individual freedom, for which, the Greek revolutionaries had taken up arms. On the other hand, their existence strengthened the tendency for an administration and state organisation under elected rulers, with the simultaneous maintenance of some of the elements of traditional Greek society.

The high point of this process was the adoption of the first Greek constitution by the First National Assembly of Epidaurus, in January 1822. This helped establish the constitutional protection of political and economic freedoms as the fundamental and necessary criterion of political legitimacy among Greeks. Because this happened during the struggle for national independence, it can be considered as the foundation of the political organisation of modern Greece.

The most important of the Constitutions of the Revolution was adopted in Troizina in May 1827 by the Third National Assembly. The Assembly had already decided that 'the legislature should be handed over to only one'. Then, with a resolution, the Assembly elected Ioannis Kapodistrias as 'Governor of Greece' for seven years and approved the 'Political Constitution of Greece', which went down in history as the most liberal and democratic constitution of its time. Although this Constitution was suspended by Kapodistrias, and although the Otto Monarchy was an absolutist regime, democratic ideas and the constitutional guarantee of civil liberties

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Acemoglou, Johnson and Robinson (2001), and the literature that emerged subsequently. See for example Acemoglou, Johnson and Robinson (2005) and Acemoglou and Robinson (2006, 2012).

[38] On the role of this ruling class for the Greek war of independence see Mouzelis (1978), Ch. 1, and especially pages 6-12.

reappeared after the September 3, 1843 'revolution' and the adoption of the Constitution of 1844. These remained the dominant ideas that defined the political organisation of the Greek state, despite the temporary diversions that have occurred from time to time.[39]

Apart from the democratic and constitutional ideals, the second main ideological driving force of the modern Greek state during the 19th century was the connection of the Greek state with its ancient and byzantine past. This became the basis of Greek nationalism. Related to that was the development of the 'great idea', the redemptive pursuit of the expansion of the Greek state, to include all areas under Ottoman rule which were inhabited by large Greek-speaking populations.

The 'great idea' was a natural extension of the consolidation of Greek nationalism that was re-awakened in the late 18th century, since initially the Greek state included only a small part of the Ottoman territories with majorities of Greek inhabitants. Effectively, its end came with the Asia Minor disaster of 1922, but in the meantime much of it had been implemented. Formally the consolidation of the borders of modern Greece took place with the annexation of the Dodecanese in 1947 and the creation of an independent state in Cyprus in 1960.

The interwar years were dominated by the after-effects of Greece's territorial and population expansion, the 'national schism', the 'Asia Minor disaster' and the inflow of refugees. The attempts to establish the 2nd Hellenic Republic in these difficult circumstances were doomed to failure, exactly because of the deep political divisions that had emerged after the Balkan wars and the difficult social and economic circumstances. Furthermore, the realisation that the 'great idea' had reached its limits, created an ideological void that was hard to fill.

After the Second World War and the civil war, the main ideological driving force of the Greek state became the pursuit of economic growth and stability, partly as a result of the extreme instability of the first half of the 20th century and especially the economic and humanitarian crisis of the period of occupation and the civil war. Economic reconstruction and growth thus became the 'new great idea'. The adoption and implementation of this pursuit took place to a large extent in the period between 1953 and 1973, in the context of the political regime that was established after the end of the civil war. Despite the divisions created by the civil war, democratic governance survived until the coup of 1967. Economic growth was

[39] The democratic and constitutional ideas were not uniformly held, but they eventually prevailed. There was an ongoing 'battle of ideas', or perhaps a 'battle of interests', between 'liberals' or 'modernisers', who were in favour of a strong democratic state, based on the principles of the enlightenment, and 'traditionalists' who favoured an eastern style, even Ottoman, feudal decentralised system of governance. See Diamandouros (1972) for an analysis of how this battle determined the formation of the institutions of the modern Greek state. This political 'battle of ideas' appears to have been going on throughout the history of modern Greece, underlying the differences both between and within political parties and shaping events such as the civil wars during the struggle for independence, the civil war between the departure of Otto and the arrival of George I, and the traumatic 'national schism' of the 20th century.

‘a tide that lifted all boats’ and helped make the authoritarian and discriminatory aspects of the post-war political regime more palatable. Even the dictatorship of 1967-1974 gained a degree of acceptance because of economic prosperity. At the same time, the social and economic transformations brought about by economic growth started to gradually undermine the regime.

After the restoration of democracy in 1974, what emerged as the new dominant ideological directions were political freedom and social justice, as well as the country’s European orientation. To a certain extent this ideological shift was the result of the significant social and economic changes brought about by economic growth. However, it was also a reaction to the discriminatory practices and authoritarianism of the post-war political regime and especially the seven-year military dictatorship. The quest for freedom, social justice and national reconciliation and integration into the European Union shaped not only the politics but also the institutional development of the 3rd Hellenic Republic.

V.2 Economic and Social Transformations

The economy of the newly established Greek state was a small and largely self-sufficient agricultural economy, poor in natural resources, with difficulties in transport and communications due to the morphology of the terrain and the absence of a suitable infrastructure, with low productive efficiency, without sufficient capital and without special productive skills, with the exception of shipping.

In addition to the almost non-existent transport and productive infrastructure, there were significant security problems, especially in the countryside, political, geopolitical and economic uncertainty, as well as a relatively large geographical distance from the major developing industrial economies.

The economy of Greece during the 19th century, and until the beginning of the 20th century remained an economy of sharecroppers and smallholders, with primary production accounting for about two thirds of total output on average. Gradually, because of population growth there was a shift towards industry and services. This shift was facilitated by the reduction of the incidence of robbery and piracy and improvements of public security and the transport infrastructure. Shipping had been a comparative advantage of Greece since the 18th century, while the networks of Greeks of the diaspora made important economic contributions, as they transferred both capital and international know-how to the new Greek state.

This economic structure, in combination with the policy relating to the ‘national lands’, also determined the social structure of the newly formed state. The primates of the Ottoman period and the military chieftains of the revolution did not manage to appropriate a significant percentage of the cultivated land, due to the fact that a large proportion of the land previously owned by the expelled Ottomans was transferred to the Greek state in the form of ‘national lands’. Both under

Kapodistrias and under Otto, the 'national lands' were leased long-term, and on relatively favourable terms, to the farmers who cultivated them. This prevented the creation of significant social inequalities and conflicts, through the creation of a large class of small farmers who rented the land from the state and not from large landowners. Large private properties barely exceeded 5% of the total agricultural land. 70% of the arable land belonged to the state, while more than 80% of the 120 thousand rural families were cultivating the 'national lands'.

In any case, both Kapodistrias and Otto, but also the political parties of the time, did not want the land to be concentrated in the hands of a few families and the creation of a land-based oligarchy. Thus, they kept extending the promise of distributing the 'national lands' to the farmers, a promise which also served as an incentive for their political support. The agricultural reform of 1871 partly fulfilled that promise.

The annexation of Thessaly temporarily threatened to change the character of Greek agriculture, as wealthy Greeks of the diaspora acquired large agricultural plots from the departing Ottomans. The attempts of the absentee landlords to impose their property rights on the landless peasants created significant social unrest, as they clashed with the long-established informal rights of the peasants. After the Balkan wars, and the annexation of Epirus, Macedonia and Western Thrace, this was not repeated. The agricultural reforms of 1917 and 1923 contributed to the maintenance of the character of Greek agriculture as a sector dominated by small holdings and family farming.

The 19th century was a period of slow transformation of the country, the state and its economy. Greece was under the influence of the Protective Powers (England, France and Russia), which had contributed to its independence and from which the main state, political, educational and economic institutions were gradually introduced.

Primary production remained the main form of economic activity, with a significant share of services (mainly trade) and a gradual increase in the share of industry, albeit from a very low basis. The main driver of this slow transformation was population growth, which by increasing the density of the population in agricultural areas led to a partial exodus from agriculture.[40]

Gradually, especially from the last quarter of the 19th century, an emerging urban class, consisting of civil servants, the military, merchants and self-employed professionals started emerging and acquiring greater economic and political influence. Later, mainly after the Balkan Wars, the integration of the populations of the new areas and the great exchange of populations that followed the Asia Minor

[40] As already noted, this is an implication of the Rybczynski (1955) theorem, based on the Heckscher (1919)-Ohlin (1933) model of international trade. A relative increase of population relative to land causes a shift from the land intensive agricultural sector to more labour intensive sectors, such as industry and services. In the absence of an explicit industrialisation policy, population growth and the territorial expansions were the main drivers of the economic transformations of the Greek economy during the 19th century and the early 20th century.

disaster, a working-class also emerged, consisting of land workers and workers in industry, construction, trade and shipping.

It is characteristic that the average percentage of services in GDP rose from 24% in the period 1900-1919, to about 35% in the period 1920-1939. Surprisingly, this did not happen at the expense of primary production (agriculture, livestock, fisheries, etc.), the share of which was only slightly reduced from 60% on average in the period 1900-1919, to about 57% in the period 1920-1939. The main reason appears to be the territorial expansion of the Greek state after the Balkan wars, which reversed the economic transformations taking place because of population growth. The addition of additional lands in Macedonia, Epirus and Western Thrace, temporarily led to a reduction in population density, and hence stopped the exodus from agriculture. In addition, services, being more labour intensive than industry, and the lack of manufacturing investment, resulted in the service sector being the main beneficiary of the transfer of workers from agriculture to the urban sectors.

The share of services rose at the expense of secondary production (mines, industry, construction). The average percentage of secondary production in GDP had increased by 50% in the twenty years 1900-1919, as it stood at 15.4%, from 10.5% in the previous twenty years 1880-1899. However, this trend did not continue. In the next twenty years, 1920-1939, the average share of industrial production in GDP was reduced to about 9% on average.

After World War II and the civil war, during the period of high growth 1953-1973, economic and social transformations intensified. The share of agricultural production showed a continuous decrease, from 21% of GDP in 1953, to 14.5% of GDP in 1973. This was in favour of secondary production (manufacturing, construction etc.), which rose from 18.3% of GDP in 1953 to 31.2% in 1973. The share of tertiary production (services) also showed a slight downward trend but remained in the region of around 60% of GDP.[41]

Through the spatial, economic and social transformations caused by the substitution of primary production (agriculture, animal husbandry, fisheries) for secondary production (industry, construction), as well as the process of rapid economic growth, a dynamic middle class consisting of self-employed professionals, public and private employees as well as entrepreneurs rose to prominence in the rapidly developing urban centres such as Athens, Thessaloniki and the large cities around Greece.

The number of farmers decreased significantly, as a large part of the inhabitants of the Greek countryside, especially in the mountainous areas, had left their villages during the civil war, and continued to leave them for the urban centres during the period of high growth, resulting in an explosive increase of the urban population. It is

[41] It has to be noted that absolute comparisons of the shares of the various sectors in GDP before and after 1948, the year that Greece formally started compiling national account data is not meaningful. Data for the 1833-1939 period were compiled ex post, by Kostelenos et al (2007) and are not necessarily comparable to the post-1948 national accounts data. Shares were also adjusted following the significant revisions of national accounts in the 1990s and the 2000s.

worth noting that the proportion of the population living in rural areas decreased from about 52% in 1940 to 35% in 1971 and to 30% in 1981. On the other hand, the percentage of the population living in urban and semi-urban areas increased from 48% in 1940 to 65% in 1971 and 70% in 1981. In 1981, the population of metropolitan Athens exceeded the total rural population, as it represented 35% of the Greek population, compared to only 15% in 1940.

The middle classes, both in the large urban centres and in the countryside were emancipated politically after the restoration of democracy in 1974. Their aspirations and behaviour became the main driving force of Greek politics and the Greek economy throughout the post-1974 period. The political influence of the rural population remained strong but was gradually overshadowed by the political influence of the urban middle classes in Athens and Thessaloniki.

V.3 Government Deficits, Monetary Instability, Foreign Borrowing and External Debt Crises

The ability to access international capital markets was a vital need for the new Greek state right from the beginning. The scarcity of natural resources and the low level of domestic savings meant that there was no other option for financing the necessary current and investment expenditure for the efficient functioning of the state, for national defence and the pursuit of the 'great idea' and for economic growth and development.[42]

This was probably the reason why the Greek state sought from the beginning to be able to borrow from abroad through the European capital markets and to participate in the international monetary system of the time. As national savings were inadequate, even if one allowed for capital transfers from the Greeks of the diaspora, international borrowing was the only other option.

In 1824 and 1825, the provisional administration of the Greek revolutionaries concluded the first two international loans, the 'Loans of Independence', in the London market. However, a year later, there was an inability to service these onerous loans, resulting in the first Greek sovereign 'default' of 1826.[43]

Greece borrowed internationally again in 1833, on the occasion of the establishment of the Otto Monarchy. This loan was only made possible by the guarantee of the Protective Powers, as the country's credibility among bond holders was low due to the 'default' of 1826. After continuous difficulties in servicing this loan, which was disbursed in instalments, in 1843 there was a second sovereign 'default', as the Otto administration was eventually unable to meet the loan payments.

[42] Parts of this section are based on Alogoskoufis and Lazaretou (2002).

[43] For a detailed account of how the 'loans of independence' were agreed upon and managed, see Chadjioannou (2013).

For a long time, mainly between 1843 and 1879, when the 'Loans of Independence' and the loans of the Otto Monarchy were finally settled, Greece had no access to external borrowing. The government could only borrow domestically, from the National Bank of Greece. However, this required increases in the quantity of banknotes issued by the NBG, which undermined the metallic convertibility of the currency. Combined with the fiscal instability caused by the periodic steep increases in military spending, this led to long periods of monetary instability.

Fiscal and monetary instability resulted in frequent suspensions of the drachma's convertibility and the inability of Greece to participate in either the Latin Monetary Union, the accession agreement to which it had signed in 1867, or in the international gold standard that prevailed internationally after 1879. It also resulted in rises in Greece's government debt.

This is not something peculiar to Greece. When there are significant temporary rises in government expenditure, governments, instead of raising taxes, tend to resort to temporary borrowing and inflationary finance, so as to minimise the economic and political disadvantages of significant hikes in taxes (see Barro 1979). The same happens during recessions. Recessions result in a temporary fall in tax revenues, because of the slowdown in economic activity, and temporary increases in expenditure on unemployment insurance and social protection. Hence, both wars and recessions result in rises in government deficits and debts and, in the case of wars, they result in increases in revenue from money creation as well.[44]

There was also a prolonged round of external borrowing between 1879 and 1893, but this also eventually led to the 'default' of 1893, the third in the history of modern Greece.

The fiscal and monetary stabilisation achieved after the establishment of the International Financial Audit Commission in 1898 allowed Greece to regain access to foreign borrowing and finally adopt the gold standard at the end of 1909. This was crucial for the preparations of the country for its successful involvement in the 1912-1913 Balkan Wars. However, the 'national schism', participation in World War I, and the Asia Minor campaign and disaster led to a new period of even higher fiscal and monetary instability for the same reasons as the last quarter of the 19th century.

The fiscal and monetary instability of the interwar period was not confined to Greece. It also characterised the rest of Europe. Greece tried to stabilise its economy

[44] The positive association between rises in military expenditure and fiscal deficits and debt is well documented historically. During the Napoleonic Wars of 1803-1815 in the United Kingdom, and the American Civil War of 1861-1865 in the United States, the convertibility to specie was also suspended. Thus, the link of the money supply to gold and silver was relaxed through the issuance of non-convertible paper currency. The Bank of England issued non-convertible sterling banknotes, and the United States issued non-convertible greenbacks. The issuance of non-convertible banknotes was used to finance these countries' respective wars and resulted in large increases in both government debt and the money supply. The increase in the money supply resulted in a rise in the price level through inflation. Yet, the suspension of convertibility was always considered to be temporary. Sterling convertibility was restored in 1821, and dollar convertibility was finally restored in 1879.

again after the mid-1920s, but the international economic crisis of the early 1930s again forced it to abandon the gold-exchange standard that it had adopted in 1928. This happened in 1932 and coincided with the fourth Greek 'default'.[45]

After the catastrophic developments of World War II, the occupation and the civil war, the stabilisation of the economy was achieved in the early 1950s. This set the stage for the long period of high economic growth and monetary stability, between 1954 and 1973. The period 1954-1973 was also one of the rare periods in which Greece's economic growth was not based on foreign borrowing and was not interrupted by external debt crises. The necessary investment was financed through the increased domestic savings, through the domestic banking system. This allowed a long period of rapid economic growth without rises in inflation, the current account deficit and external debt.

Fiscal and monetary instability returned with the oil crises of the 1970s, the collapse of the Bretton Woods system, and the attempt during the 1980s to redistribute income and wealth through public borrowing. The 1980s was one of the few periods in Greece's history when fiscal and monetary instability was not associated with rises in defence expenditures or wars.

Inflation was tackled in the 1990s following the adoption of a restrictive monetary policy, but fiscal problems were only partially tackled, while the problem of the low international competitiveness of the Greek economy worsened significantly.[46]

Greece finally joined the euro area in 2000 and adopted the single European currency, the euro, in 2001. However, the pre-existing fiscal imbalances worsened during the period of euphoria following accession to the euro area and the same happened with the already serious problem of the low international competitiveness of the Greek economy.

As a result, external imbalances widened and there was a significant and sustained increase in external borrowing. This contributed to the debt crisis that erupted in 2010, following a major international financial crisis and recession in 2008-2009. The financial crisis of 2010 was effectively the fifth 'default' of the Greek economy, although it was not presented as such.

Our analysis of fiscal and monetary instability in the history of modern Greece suggests that this was mainly the result of either the pursuit of the 'great idea', during the latter part of the 19th century and the first quarter of the 20th century, or the pursuit of a redistribution of income and wealth through borrowing, as during the 1980s.

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[45] Christodoulakis (2013) has analysed the 1932 'default'

[46] The new political economy approach to monetary and fiscal policy aims to explain delays and failures to address fiscal and monetary imbalances, in terms of the interactions of the incentives of policy makers (politicians and bureaucrats) with the private sector. For a collection of the most fundamental studies that initiated this approach see Persson and Tabellini (1994 a, b).

In addition, because of the inadequacy of national savings throughout Greece's history, with the exception of the 1960s and the 1970s, periods associated with easy access to international borrowing resulted in excessive foreign borrowing and debt and, eventually, debt crises and defaults.[47]

A key feature of developing economies is that their domestic savings are often not sufficient to finance the investment opportunities that arise in them. Therefore, developing economies, like some developed economies too, often resort to borrowing from international money and capital markets to finance investment and promote economic growth. However, unlike the developed economies, the international debt of developing economies is usually in foreign currency, and not in their own currency. This has been the case for Greece throughout its history.

The high external borrowing in foreign currency makes an economy vulnerable if conditions, or even expectations, change in international markets. If international investors start to believe that a country may not be able to continue to service its foreign debt, i.e., that it may 'default', they will stop financing the country bringing about a foreign debt crisis, even if the country is in fact solvent. It is the same process that brings about crises in fixed exchange rate regimes. Loans in foreign currency or bonds in foreign currency that are maturing are not renewed, or international investors demand higher returns, causing a rise in the debt service cost of a country in foreign currency. This can precipitate an international debt crisis or a 'default'.[48]

There are four pre-requisites for an external debt crisis or a 'default': First, high international capital mobility at the global level, which allows a country to borrow in international financial markets. Second, a period of protracted deficits in the current account and a large increase in foreign currency denominated external debt. Third, an event changing conditions or expectations in international capital markets. Such an event may be a global recession that reduces demand for the exports of the country concerned, an increase in international interest rates, a political change in the country, or all of these factors. Fourth, limited foreign exchange reserves and a fixed exchange rate regime.

All four pre-requisites applied in the case of Greece's international debt crises and defaults. The 'defaults' of 1826 and 1844 occurred first because Greece was able to

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[47] The 'defaults' of modern Greece have been examined by Reinhart and Trebesch (2015) who are extremely critical of 'Greece's external dependence'. So is Dertilis (2016). What they seem to overlook is that in the absence of private domestic savings, the alternative to international borrowing to finance a war or investment or to avoid a recession is either outright monetary financing and inflation, or no borrowing at all.

[48] The inability of developing economies to borrow in their own currency, is often called the *original sin of developing economies*. Conversely, the ability of Britain until 1914 and the USA since the end of World War I to borrow in sterling or dollars, and in this way to reduce the real value of their international obligations, is often referred to as the *exorbitant privilege* of the US. See Eichengreen (1998) for a survey of the historical evolution of the international monetary system and international capital markets.

borrow internationally and second because it was effectively insolvent as it lacked the foreign currency earnings with which to service the loans. In addition, the 'loans of independence', due to their extremely unfavourable terms, would have been impossible to service even if Greece's economy was a regular economy and not a country at war.

On the other hand, the 'defaults' of 1893 and 1932 and the debt crisis of 2010 were not only due to prolonged periods of high current account deficits and large increases in foreign currency debt but were also prompted by international recessions that reduced the demand for Greece's international exports and caused interest rates on Greece's debt to rise. Furthermore, the defaults of 1893, 1932 and the debt crisis of 2010 were associated with Greece's inadequate foreign exchange reserves and, in the case of the latter two, participation in a fixed exchange rate regime.[49]

The first stage of a debt crisis is for international investors (the 'markets') to begin to doubt whether the country concerned will be able to continue servicing its foreign debt. This leads to a reduction in international lending to the country, or worse, a capital flight abroad that reduces foreign exchange reserves and causes interest rates to rise. An external debt crisis leads an economy in a recession, since it will have to reduce its current account deficit by reducing investment and increasing savings. This is the only way to balance the current account and return to external equilibrium. A crisis often leads to a rapid currency depreciation, inflation and collapse of the banking system, particularly if banks are also leveraged in foreign currency. Often, after a debt crisis a country is forced to resort to official lending through a program which requires it to follow an adjustment program which usually includes a devaluation of the currency, fiscal adjustment and monetary stabilisation in order to balance the current account.

All the above have featured in the periodic debt crises that affected the Greek economy. The 'default' of 1844 was followed by the 'naval blockade' of Piraeus and the establishment of an International Financial Audit Commission which oversaw the re-payment of Greece's restructured debt payments. The 'default' of 1893 was followed by the establishment of an even tighter International Financial Audit Commission which forwarded a new official loan, but also harsh fiscal and monetary adjustment that, at least originally resulted in a recession. The 'default' of 1932 was followed by devaluation, fiscal adjustment, a prolongation of the recession and the imposition of capital controls. The debt crisis of 2010 was followed by official lending and the imposition of three successive adjustment programs, designed and supervised by a 'troika' of representatives from the International Monetary Fund,

[49] In the case of the 1932 'default' Greece was forced to abandon the gold exchange standard of the interwar period, devalue and adopt capital controls. In the case of the 'debt crisis' of 2010 these options were not available, unless Greece was prepared to exit the euro area. However, in all probability, 'Grexit' would have been an even worse option than the 'austerity' that followed the 2010 crisis, both during the transition to a weak national currency and in the medium term.

the European Commission and the European Central Bank. Although they contributed to a correction of the external and fiscal imbalances that characterised the Greek economy, this was at the expense of a 'great depression', that lasted for seven years, between 2010 and 2016.

V.4 The Evolution of Political and Economic Institutions

For a newly formed state like Greece after its independence, it was important to create the institutions that would support the achievement of its national goals and its economic development. Critical among these institutions were the establishment of political and administrative institutions, army and police, a judiciary system and educational institutions. For the successful operation of its economy, it was imperative to deal with the protection of property rights, as well as to introduce fiscal, monetary, financial and other economic institutions that would facilitate the production and exchange of goods and services and the financing of the necessary investment. Success was mixed on both the administrative and the economic front.

The main resources of the newly formed Greek state were the 'national lands', which had been used as collateral for the 'loans of independence' of 1824-1825. The Greek state held on to these lands until 1871, subletting them to the farmers that were cultivating them. It gradually acquired a tax system (based initially on the taxation of agricultural production), a national currency (the Kapodistrian phoenix and then Otto's drachma) and a banking system (the National Bank and later the Ionian Bank and the bank of Epirus-Thessaly).

For many years, the key feature of the social structure of the country was the predominance of small-scale farmers in the Greek countryside and the absence of large landowners. This, as we have already mentioned, was due to the fact that, after independence, most of the properties of the Ottomans were transferred to the Greek state, which sublet them to local farmers on favourable terms. After the agrarian reform of 1871, the 'national lands' were permanently transferred to the farmers who cultivated them, who thus acquired property rights. The policy of land redistribution which continued even after the expansion of Greek territory in Thessaly and Macedonia, contributed both to the absence of significant class conflicts, due to the relatively equal distribution of income, but also to the rapid emergence and deepening of democratic institutions.

The introduction of universal suffrage in 1847 (for men), the replacement of the absolute monarchy by a parliamentary monarchy in 1863, the deepening of parliamentary democracy after 1875 and the political and constitutional reforms of 1911 and 1975 were milestones in the development of democratic institutions.

For many years during the 19th and the first part of the 20th century the Greek political system remained oriented towards serving the interests of the farmers, who constituted its main political clientele. However, although universal suffrage had

been in place since 1847, elections were often violent and rigged affairs, and clientelism was a major feature of the political system.[50]

Gradually, especially from the beginning of the 20th century, the emerging urban classes, consisting of civil servants, the military, merchants, professionals and the self-employed gained greater political influence. This gradually led to additional political and economic reforms.

After the integration of the new territories and the great population exchange that followed the Asia Minor disaster, a working-class class also emerged, consisting of land workers and workers in industry, construction, trade and shipping.

The limits of the power of the monarchy became a major institutional and political issue following the 'national schism'. In contrast to the reign of George I, his successor, Constantine I, was not limited to the largely symbolic role of a head of state. He sought to be actively involved in politics, especially the country's foreign policy. This put him in opposition to Eleftherios Venizelos, a charismatic but controversial politician, resulting in the 'national schism' which poisoned political life since 1915 and for many decades.

After the Second World War and the civil war, in the period of high economic growth, a dynamic middle class emerged in urban centres such as Athens, Thessaloniki and other major cities. This middle class became politically emancipated mainly after the restoration of democracy in 1974, when discrimination against the supporters of the left, the political faction that had been defeated in the civil war, ultimately ceased.

After World War II and the bloody civil war of 1946-1949, Greece participated from the beginning in all the important post-war international institutions of the new world order and the western alliance. These included political institutions, such as the UN, military institutions, such as the NATO, and economic institutions, such as the OECD, the IMF, the World Bank and the GATT.

The Greek economy developed impressively for twenty-five years after the end of the civil war. Between the 1950s and the 1970s, the Greek economy experienced one of the best periods of almost uninterrupted high economic growth and monetary stability worldwide.

Within twenty years, from a poor agricultural economy, Greece was transformed into a developed mixed economy, with a significant secondary and tertiary sector. The country's per capita income far exceeded that of any other economy in the wider region of South-eastern Europe and quickly approached the per capita income of the developed economies of Western Europe and the United States. This was not unrelated to its political and economic institutions.

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[50] Clientelism and party political capture of the administration were the original sins of the democratic institutions of modern Greece since the 19th century. This inevitably led to inefficiencies and corruption. See Sotiropoulos (1993) on how the problem of party-political capture of the administration following elections resurfaced after 1974.

The political system until 1967 operated in a parliamentary context, but supporters of the left, the political faction that had been defeated in the civil war, faced persecution and exclusion.

The conflicts between the monarchy and the elected prime ministers, which had previously led to the 'national schism', continued to lurk, especially with regard to the control of the armed forces. After the resignation of the elected Prime Minister in 1965, and the political instability that followed, democracy was overthrown by the military coup of 1967. Until 1974, a rigid military dictatorship was established in Greece.

The economic institutions of this period, which survived through to 1974, suggest a regime anything but laissez-faire. A large number of government agencies were created, union activity was heavily controlled, and the banking system was tightly regulated through the Currency Committee and the Bank of Greece. However, the direct role of the state in the economy was relatively small, outside the areas of public administration, banking, electricity and telecommunications. Most prices were determined freely, although the prices of 'necessities' were subject to controls. In an era of low inflation, these controls did not seem to be particularly distorting. In foreign trade, domestic firms enjoyed significant protection, despite the gradual phasing out of tariffs, following participation in GATT and Greece's association agreement with the EC. Labour unions were controlled by the government, a significant factor behind uneventful industrial relations and wage moderation. Business taxes were low, and provisions for the protection of property rights and accelerated depreciation ensured confidence and a high rate of return on investment. These institutional characteristics were among the crucial determinants of Greece's high growth rate during 1954-73.

The collapse of the dictatorship after the Turkish invasion of Cyprus in 1974 led to the establishment of a Republic, the 3rd Republic in the history of modern Greece, the gradual healing of the wounds of the civil war and the accession of Greece to the European Communities in 1981.

However, the growth of the Greek economy slowed down since the mid-1970s and the problem of high inflation returned after 1972. In the 1980s there was a significant further destabilisation of the Greek economy and stagflation prevailed for long periods.

Greek manufacturing, which was the main driving force of the period of high growth during the 1950s and the 1960s, entered a period of decline. This period started with the two international oil shocks of the 1970s and continued after Greece joined the much more competitive economy of the European Union and abolished tariff protection vis-a-vis EU manufacturing. The problems were exacerbated by the macroeconomic destabilisation of the 1980s, which led to a further reduction in Greece's international competitiveness. Yet, Greece was already at the core of the European Union.

The change in political regime affected most aspects of the economy. The demand for redistribution and an expanded role for the state led successive governments to seek more instruments of economic policy, by resorting to price, wage and interest rate controls, credit controls, continual revisions of the tax and legal systems, rises in taxation, nationalisation and the creation of new government agencies. These changes mostly occurred haphazardly, which did not enhance the credibility of the protection of property rights, the tax system and the legal system. In addition, the political polarisation that emerged helped stimulate unsustainable deficits and debts, as governments resorted to borrowing, which did not involve the direct political costs of tax increases. The accommodation of wage demands through exchange rate policy led to persistent inflation, especially during the 1980s. At the same time, infrastructure investment suffered whenever there were attempts to control government deficits. The drive for distributional equity and the rise of union power resulted in large increases in real unit labour costs (the share of labour costs in output) at the expense of profits. Real unit labour costs rose by about one-third during1975-85, and continued rising after 1988, leading to a significant deterioration in Greece's international competitiveness.

The change in regime occurred because the regime of the 1950s and the 1960s had become politically discredited by the dictatorship and, in any case, had reached its limits. The new regime emerged haphazardly following the crisis in Cyprus, the first oil shock and social unrest. It was not the result of a rational cooperative restructuring process by a strong government that sought to maintain the commitment and coordination mechanisms of the previous regime, without the political repression associated with it. The preparation of the economy for the opportunities of EC entry also left a lot to be desired. The new regime largely evolved as the unplanned outcome of a social struggle for income shares among various socioeconomic groups, with democratic governments trying to satisfy conflicting objectives like re-election, growth, redistribution and social peace. The resulting equilibrium was unsatisfactory, but it was sustained for a long time by EC transfers that masked the underlying problems of the economy.[51]

After a decade of incomplete and ineffective macroeconomic adjustment, euro area entry in 2000 initially led to a period of euphoria and a recovery of the Greek economy. This was mainly due to the sharp fall in real interest rates and the extensive increase in external borrowing caused by low interest rates. The rapid accumulation of foreign debt, which was also a result of the low and deteriorating international competitiveness of the Greek economy, led once again, in 2010, to a major external debt crisis, the fifth major 'default' of modern Greece, the

[51] See Alogoskoufis (1995) for more details on the macroeconomic implications of the two institutional regimes, before and after 1974. An earlier paper by Alogoskoufis and Christodoulakis (1991) concentrated on the effects of fiscal deficits on inflation and external debt, while Alogoskoufis and Philippopoulos (1992) and Alogoskoufis, Lee and Philippopoulos (1998) concentrated on the relation between wage setting, inflationary expectations and the inflation-unemployment tradeoff under the different monetary and exchange rate regimes.

memoranda and a modern form of international financial control through the 'troika' of the European Commission, the European Central Bank and the International Monetary Fund.[52]

A number of recent studies have examined the effects of the institutional characteristics of the Greek economy on its economic performance. This work is mainly based on the World Bank Global Governance Indicators. These indicators measure the impact of institutions in areas such as 1. the rule of law, 2. the quality of the regulatory framework, 3. the effectiveness of governance, 4. the control of corruption, 5. political stability, and 6. representation and citizen participation.

According to the analysis of the impact of these indicators, among the euro area countries, Germany is the country with the best quality of institutions and Greece the one with the worst. In addition, countries with institutions of better quality appear to have coped better with the effects of the global financial crisis and the 2008-2009 economic downturn. In addition, based on these indicators, the quality of institutions in Greece seems to have deteriorated significantly during the crisis and to have contributed significantly to the 'great depression' of the Greek economy.

Consequently, the quality of the institutions seems to be of great importance for the economic performance of Greece in relation to the other countries of the euro area and to interact positively with its economic performance.[53]

In 2020, after almost 10 years of economic crisis and painful austerity, Greece faced a new economic crisis, due to the international pandemic of Covid-19. It must face this new crisis and the challenges of a relatively developed post-industrial economy, with significant structural problems and low international competitiveness, but as an economy within the euro area, a zone of monetary stability at the core of the European Union. How to deal with these challenges will determine the next stage in the history of the Greek economy.

V.5 Geopolitics, the Protecting Powers, the Western Alliance and Europe

As we have already mentioned, the 'great idea', the pursuit of the expansion of the territory of the Greek state, so as to include areas under the rule of the Ottomans inhabited by a majority of Greek speaking populations, became the main national policy of the modern Greek state during the 19th and the early 20th century.

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[52] Alogoskoufis (2019, 2021) analyse economic developments before and after the euro in more detail.

[53] See Christodoulakis (2019), Featherstone (2011, 2019), Christou et al (2020) and Economides et al (2020) for three of the most recent studies based on the investigation of the effects of these indicators of the quality of institutions and their interactions with the economic performance of Greece. A number of papers in Meghir et al (2017) also focus on the institutional weaknesses of the Greek economy and the need for reforms, as does Alogoskoufis (2021) and a number of papers in Alogoskoufis and Featherstone (2021, forthcoming).

With the tolerance, and in some periods the assistance, of the ‘Protective Powers’, especially Britain, and sometimes despite their reservations, a large part of the ‘great idea’ materialised by the early part of the 20th century.

In 1864 Great Britain ceded the Ionian Islands to Greece, on the occasion of the proclamation of George I as King of the Hellenes. Thessaly and part of Epirus were incorporated into the Greek state in 1881, again with the assistance of the Protective Powers, mainly Great Britain and France, as a balancing act for the territorial expansion of Bulgaria. After the victorious Balkan Wars, in 1912 and 1913 Epirus, Macedonia and Crete were integrated into Greece, while in 1923 Western Thrace was also integrated. The end of the 'great idea' came only after the Asia Minor disaster of 1922. Nevertheless, in 1947 there was another expansion of Greek territory, with the integration of the Dodecanese, which until then were under Italian occupation.

The territorial expansions of the Greek state are presented in Figure 2. From 47.5 thousand square kilometres in 1833, the Greek territory today covers 132 thousand square kilometres, an increase of approximately 2.8 times (277.9%). The biggest increase occurred after the Balkan wars when, with the Treaty of Bucharest, Greece annexed Epirus, Macedonia, Crete and the islands of the eastern and north-eastern Aegean. The Greek territory almost doubled, as it increased by about 90%, from 63.2 to 120 thousand square kilometres.

Even greater increases have occurred in the population of Greece, due to the territorial expansions, other population inflows and the natural increase of the population. From 720 thousand inhabitants in 1833, Greece in 2019 numbered 10.7 million inhabitants, an increase of about 15 times (1486%).

The evolution of the population of Greece over time is also presented in Figure 2. With the exception of many deadly wars, such as World War II and the civil war, the population of Greece grew steadily from 1833 to 2010. However, after 2010, due to the gradual ageing of the population and the increase of migration due to the great depression of 2010-2016, the population of Greece has been declining.

In conclusion, despite its institutional, political and economic weaknesses, Greece managed to implement a large part of the ‘great idea’, increasing its territory and its population, as well as the living standards of the population. It has been particularly effective in exploiting geopolitical circumstances and choosing the ‘right’ side of history, on the side of the victors, during every major regional, European or world conflict (Balkan Wars, World War I, World War II, Cold War).

However, there were also periods of political, military and economic crises and disasters, such as the occupation of Piraeus by England and France between 1854 and 1857, the Greek-Turkish war of 1897, the Asia Minor expedition and disaster, the dictatorships of the 1920s and 1930s, the German occupation, the civil war, the dictatorship of 1967-974 and the five major debt crises and ‘defaults’ of the 19th, 20th and 21st centuries.

World War II, the occupation and the civil war were a particularly disastrous sequence for Greece. Despite being on the 'right' side of history again, Greece suffered enormous human, social and economic costs.

Yet, the fact that Greece became part of the 'western alliance' at the start of the Cold War, the Truman doctrine and the Marshall Plan, helped it stabilise its economy and set the stage for an extended period of high economic growth. It also allowed Greece to join the European Union immediately after the restoration of democracy in 1974, something that stabilised its democracy and driven the transformation of its institutions. Yet, despite, or perhaps because of, significant economic transfers from the EU, the Greek economy underperformed since EU entry.

All things considered, with few exceptions, such as the Asia Minor Disaster and the occupation during World War II, geopolitical developments proved rather helpful in assisting Greece achieve its national goals during the last two hundred years.

The current challenge is whether Greece can adapt further, so as to make better use of the opportunity of EU and euro area participation. This will certainly require significant economic, administrative and political reforms.

VI. Conclusions

The economy of modern Greece has a history of about two centuries. The transformation of the country and the economy during these two hundred years has been impressive.

Greece managed to almost triple its national territory, compared to the territory occupied after the war of independence, to increase its population by almost 15 times, by incorporating most Greek populations in the wider region, and to increase its real GDP per capita by another 15 times. It has been transformed from a mainly agricultural economy at the margins of south-eastern Europe to a post-industrial economy in the core of today's European Union.

This transformation was neither linear nor automatic. The overview of the developments of the Greek state and its economy in the long haul contained in this paper suggests the existence of three large distinct historical circles.

First, the cycle of state and nation building, 1828-1898.

Second, the cycle of the expansion and eventual consolidation of Greece's borders and population, 1899-1949.

Third, the post-1950 cycle of economic and social development and integration into the European Union.

This overview and interpretation, based on the examination of the interactions of social and economic conditions, ideas, institutions and policies, ultimately contains an optimistic message: Despite its difficulties and weaknesses, the alternation of

national triumphs with national disasters, despite wars and national 'schisms' and economic crises, in each of these three historical cycles Greece has managed to make relatively good use of the opportunities presented and the geopolitical circumstances to largely achieve its national goals. What is needed for the future is to improve upon the level of prosperity it has secured during its third historic cycle, through reforms that will protect democracy, improve the economy and shield its membership of the European Union.

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