Why does Greece fail?

A comparative analysis of the economic crises of the 1930s and the 2010s

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Table of Contents

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List of Figures

List of Acronyms

ABoG	Agricultural Bank of Greece
ADEDY	Civil Servants' Union or The High Command of Unions for Public-sector Employees
AET	Archive of Emmanuel Tsouderos, Bank of Greece, Athens
AOS	The Senior Economic Council or *Ανώτατο Οικονομικό Συμβούλειο*
ASDY	Principle Governing Public-sector Entries – Examinations
ASE	Athens Stock Exchange
ASEP	Supreme Council for Civil Personnel Selection
BiS	Bank of International Settlements
BoE	Bank of England
BoG	Bank of Greece
BoP	Balance-of-Payments
CB	Central Bank
CBF	Corporation of Foreign Bondholders
CDS	Credit Default Swaps
CHA	Comparative Historical Analysis
DIMAR	Democratic Left
DM	Deutsche Mark
EC	European Commission
ECB	The European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECU	European Currency Union
EDP	Excessive Deficit Procedure
EEC	European Economic Community
EFSF	European Financial Stability Fund
ELA	Emergency Lending Activity

ELSTAT	Hellenic Statistical Authority
EMU	European Monetary Union
EP	European Parliament
EPP	European People's Party
ERM	Exchange Rate Mechanism
ESM	European Stability Mechanism
ETFG	EU Task Force for Greece
EU	European Union
ETVA	Industrial Development Bank
Fed	US Federal Reserve
GCI	Global Competitiveness Index
GD	Golden Dawn
GDP	Gross Domestic Product
GES	Golden Exchange Standard
GFC	Global Financial Crisis
GNP	Gross National Product
GS	Classical Gold Standard (pre-1914)
GSEE	General Confederation of Greek Labour
GXK	General Chemical State Laboratory or *Γενικό Χημείο του Κράτους*
HABoG	Historical Archives of the Bank of Greece
HABMAEV	Archive of Eleftherios Venizelos, Benaki Museum, Athens
HANBG	Historical Archives of the National Bank of Greece
HFSF	Hellenic Financial Stability Fund
HI	Historical Institutionalism
HI_BFO	Historical Archives British Foreign Office, London
HRADF	Hellenic Republic Asset Development Fund

HRM	Human Resource Management
IAPR	Independent Authority for Public Revenue
IFC	International Financial Commission
IFI	International Financial Institution
IL	International Law
IMF	International Monetary Fund
INT	Interviews
InCiSE	International Civil Service Effectiveness
IPE	International Political Economy
IR	International Relations
KEPES	The Central Committee for the Protection of Domestic Wheat
KKE	The Communist Party of Greece
LAOS	Popular Orthodox Rally
LMU	Latin Monetary Union
LNFC	League of Nations Financial Committee
LoC	Law of Control
LoLR	Lender of Last Resort
LoN	League of Nations
Ministry of TTT	Ministry of Postal Services, Telegraphs and Telephones
MIP	Macroeconomic Imbalance Procedure
MME	Mixed Market Economy
MNE	Ministry of National Economy
MoU	Memorandum of Understanding agreement
MS	Member States
NATO	North Atlantic Treaty Organization
NBG	National Bank of Greece
ND	New Democracy

NPL	Non Performing Loans
NYSE	New York Stock Exchange
OECD	Organisation for Economic Cooperation and Development
PA	Public Administration
PASOK	Panhellenic Socialist Party
PE	Political Economy
PM	Prime Minister
PSBR	Public-sector Borrowing Requirement
PSI	Private Sector Involvement
PVT COMM	Private Communication
QE	Quantitative Easing
RQ	Research Question
SE	Southern European
SEV	Hellenic Federation of Enterprises
SGI	Sustainable Government Index
SGP	Stability and Growth Pact
SME	Small-and-medium Medium Enterprise
SOEs	State-owned Owned Enterprise
SYRIZA	The Coalition of the Radical Left-Progressive Alliance
TEU	Treaty of the European Union or Maastricht Treaty
TFGR	Task Force for Greece
TSCG	Political Economy Treaty on Stability, Coordination and Governance
US	United States of America
VAT	Value Added Tax
VoC	Varieties of Capitalism

Abstract

This thesis offers a qualitative structured and focused comparison of the Great Depression of the 1930s and the Global Financial Crisis of the 2010s, specifically focusing on Greece. Focusing on the key factors that amplified the two crises' impact and shaped Greece's immediate response makes an important contribution to Greek Political Economy scholarship and the burgeoning debates on continuity and change and economic crises, highlighting some original parallels between these two periods of economic turbulence.

This thesis immerses insights from three scholarly disciplines - Political Economy, Political Science, and Economic History. While it derives three building blocks from International Political Economy (*conditionality, credibility,* and *external dependence*) to bridge the two case studies with the international context, it also identifies five perennial features characterising the Greek-specific setting (*cultural dualism* and zero-sum politics, *patronage politics*, *étatism*, *poor public administration*, and *weak reform capacity*) – framed as the *path-dependent pathogens* – as conditioning factors for Greece's response to both crises.

Using the single-country case study method, this thesis presents a robust, theoretically informed, and empirically grounded historical perspective. It adopts a two-fold methodological approach, combining Comparative Historical Analysis (CHA) and Historical Institutionalism (HI) theoretical framework. This innovative blend enables an insightful examination of Greece's political and economic systems, unearthing resilient path dependencies, providing a deeper understanding of the deeply entrenched historicity characterising the Greek-specific setting, and filling significant gaps in the existing literature.

This thesis offers a critical contribution to understanding the cyclical nature of political and economic crises. By linking the post-1929 and post-2008 crises with Greece's perennial political economy features it hopes to serve as a *pilot case* for comparative studies on the country's experiences with economic crises while promoting the multi-dimensional approach of Historical Political Economy. Although centred on Greece, this thesis' findings and insights bear relevance for other peripheral countries characterised by chronic economic weakness and resistance to externally prescribed economic remedies. Thus, this thesis contributes to a broader understanding of economic crises in similar geopolitical contexts, paving the way for future research by highlighting the detrimental role of the domestic political economy against the backdrop of economic shocks.

Declaration and Copyright Statement

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

Copyright Statement

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Introduction

The Global Financial Crisis (GFC), triggered by the aftershocks of the bankruptcy of Lehman Brothers on September 15, 2008, was the most pronounced financial panic in modern history. The wide-ranging repercussions of the post-2008 *sudden stop* and ensuing *credit crunch* sparked an explosion of scholarly and policymaking attention on the manifestations, transmissions, and repercussions of the crisis of the 2010s (for illustrative examples, see Sorkin, 2009; Rajan, 2010; Stiglitz, 2010; Bernanke *et al.,* 2018). Moreover, the post-2008 crisis revitalised the scholarly research focusing on the historical experiences of financial crises, with a particular emphasis on the 19th and 20th centuries (Albers and Jonung, 2010; Ritschl, 2012; Calomiris and Haber, 2014; Hansen, 2015: 557-569; Cassis *et al.,* [eds.] 2016). This body of work has produced a broad spectrum of c*ountry-specific*, international, or comparative perspectives (for illustrative examples, see Kobrak and Wilkins, 2013; Calomiris and Haber, 2014; Cassis, 2016; Hsu, 2017).

Despite the global and wide-ranging impact of the Global Financial Crisis, in the post-2008 period, no other country received more scholarly and public attention than Greece (Siani-Davies, 2017; Basu *et al.,* 2018; Chang *et al.,* 2020). The prevailing narrative of the Eurozone Crisis has focused on Greece's role as the conduit between the financial and economic panic ignited by Lehman's collapse in the United States and the debt crisis in the Eurozone (Papaconstantinou, 2021: 241-242). Greece's systemic economic and structural weaknesses, such as its "fiscal profligacy" (Wyplosz, 2009), excessive *debt overhang* and sluggish competitiveness, made it "the weakest link in the eurozone chain" (Moury *et al.,* 2021: 30). The shock's outbreak compounded the country's economic weaknesses, combined with its broader reputational problems, or *trust deficit,* and degenerated into speculative scenarios – and preparations – for Greece's prospective departure from the Eurozone (Rahbari and Buiter, 2012; Varoufakis, 2017; Dendrinou and Varvitsioti, 2019; European Stability Mechanism, 2020).

In the context of the post-2008 crisis, Greece has been perceived as a totemic case because its economy experienced the most severe and, simultaneously, the most prolonged contraction globally (IMF, 2019). Due to the significant decline in living standards, rise in poverty, inequality, and social hardship the crisis fuelled, the Greek experience of the 2010s has often been compared to the Great Depression of the 1930s. Greece also stands out as an outlier in the Eurozone because three consecutive bailouts and the largest debt restructuring in history were required to avert the country's default – and inherently a 'Grexit' (Moury *et al.,* 2021: 40-43). Both in the scholarly and broader policymaking discourse, the malaise which Greece experienced in the aftermath of the post-2008 crisis has been largely explained as a *by-product* of domestic "pathologies" (Kostis, 2013: 25; Bournakis and Tsoukis, 2017: 376–377; Jacobides, 2017: 647; Meghir *et al.,* 2017: vii and 377). The Head of the IMF mission in Greece put it starkly as "two-hundred years of clientelism, corruption, and maladministration" (Thomsen, 2021).

Notwithstanding the country's *trust deficit* towards its international creditors and European partners, Greece also served as a "canary in a coal mine" (US Congress, Committee on Financial Services, 2010: 17) for wider problems within the Eurozone. In hindsight, what initially appeared to be a Greek-specific and subsequently *peripheral* or Southern European phenomenon masked the systemic flaws in the institutional governance of the European Monetary Union (EMU) and posed a significant challenge to the European integration project (Blyth and Matthijs [eds], 2015; Brunnermeier *et al.,* 2016; Wyplosz, 2016; Mody, 2018; Schmidt, 2020). Categorisations of the vast literature relevant to this dissertation's comparative examination of the economic crises are inherently challenging. Involving a degree of generalisation, one could identify four bodies of scholarship that are directly relevant to this thesis.

Firstly, a voluminous body of literature investigates the role of monetary, fiscal, and labour policies, as well as financial regulation, specifically focusing on the post-1929 Great Depression (Keynes, 1931; 1936; Friedan and Schwartz, 1963; Bernanke and James, 1991; Eichengreen and Temin, 2002), and the post-2008 global financial crisis (Schenk, 2010; Goodhart, 2011; Eichengreen, 2015; Cecchetti and Schoenholtz, 2017; Bluhm, Crombrugghe and Szirmai, 2020). In addition to the extensive and diverse scholarship on the history, evolution, and consequences of the Great

Depression of the 1930s (Galbraith, 1954; 1955; Bernanke, 1983; 2000, a, b; Kindleberger, 1973; 1986; Bernanke and James, 1999; 2000; 2002), there is a vast literature also examining its longstanding legacies (Temin, 1989; 1996; 2007; Eichengreen, 1991; 1992; 2008; Bordo *et al.,* 2007; Ferguson, 2014).

Recent literature explores the global dimension of the post-2008 crisis from a historical perspective (Aman and Middleditch, 2020; Reinhart and Trebesch, 2021), critically engaging with its potential legacies (Tooze, 2019). The scholarship emphasises the so-called "original sin" (Eichengreen and Hausmann, 1999) and underlines the importance of core-periphery dynamics in accessing external finance when domestic lending sources are weak or non-existent (Eichengreen, 2011; Temin, 2012; Reinhart and Trebesch, 2014; DeLong, 2015). There is a consensus in the scholarship that *peripheral* countries suffering from the *original sin* are more vulnerable to external shocks, such as debt crises, than their core peers. There is also a rich scholarship examining the post-2008 crisis, stressing the negative interdependence between countries and banking institutions, known as the *bank-sovereign doom loop,* and how this phenomenon compounded the effects of the crisis (Acharya *et al.,* 2014; Cooper and Nikolov, 2018; Farhi and Tirole, 2018). The fundamental gap in this body of existing scholarship is that its analyses often neglect country-specific features and the role of the domestic political economy.

Secondly, there is a body of work examining (either in a single case or comparative context) the causes, transmissions, and social, political, and economic repercussions of the post-2008 shock, specifically focusing on the Greek-specific setting (for example, see Bournakis *et al.* [eds.], 2017; Doxiadis and Placas [eds.], 2018; Chodorow-Reich *et al.,* 2019). Scholars provide essential insights into the modalities of Greece's experience combined with analytical insights into the breadth and depth of foreign intervention (Featherstone, 2011; Mitsopoulos and Pelagidis, 2012; 2014; 2016; 2017; 2019; Sandbu, 2015; Siani-Davies, 2017; Meghir *et al.* [eds.], 2017). There is also no shortage of cross-disciplinary scholarship covering a wide range of issues ranging from the specificities and shortcomings of the externally induced adjustment and fiscal consolidation, the role of the media (in Greece and abroad) in depicting the crisis, to the crisis' impact on mental health and its manifestations in Greek poetry (Kalyvas *et al.* [eds.], 2012; De Waal, 2018; Mylonas, 2019; Ferra, 2019; Marangoudakis, 2020; Tzogopoulos, 2020; Papathanassopoulos *et al.,* 2021: 177-230; Spanou, 2021). The fundamental weakness of this body of literature is its lack of a longer historical perspective and its disproportionate attention on the period after Greece joined the Eurozone, thus overlooking the deeply embedded historicity of the domestic setting.

Thirdly, the post-2008 crisis has reinvigorated a theoretically- and historically-minded literature inspired by Kindleberger (1978) and Minsky (1986), focusing on the underlying features of economic shocks and sovereign defaults combined with their causes and transmission effects (Reinhart and Rogoff, 2011; Claessens, 2014). Both policymakers and scholars have drawn parallels between the Great Depression of the 1930s and the Global Financial Crisis of the 2010s, focusing on fixed exchange rate regimes, international capital flows and overborrowing (James, 2009; 2013; Almunia *et al.,* 2010; Eichengreen, 2015). Scholars have created and refined vast databases ranging from the late 1890s until today, such as the Maddison Database and the South-Eastern European Monetary and Economic Statistics Database (Bank of Greece, 2014; Jordá *et al.,* 2017; 2019; Hamilton, 2017; Albers, 2018 a,b; Kose *et al.,* 2019; 2020), and examined theoretical hypotheses on *boom-and-bust cycles*, monetary regimes, international capital flows, the accumulation of debt, and the long-term effects of financial crises on the real economy (Minsky, 2011; Merler and Pisani-Ferry, 2012; Aguiar *et al.,* 2019; Quinn and Turner, 2020). Additionally, scholars have produced interesting data on the frequency of financial crises, banking crises, and *sudden stops* (Gourinchas *et al.,* 2017; Reinhart and Trebesch, 2018). Despite the revitalised interest in exploring the causes and effects of global economic crises – which Albers (2018: 2) describes as the "second renaissance of economic history" – this literature tends to focus on large-N samples and involves primarily quantitative techniques (for an exception, see Herrera *et al.,* 2020; 2022).

Fourth, the Greek experience of the 1930s is not virgin territory in the scholarship. This thesis contributes to three other sub-categories of literature examining the 1930s in a focused or comparative manner or within the context of a broader historical comparative perspective. The first sub-body of literature pertains to the historiography of the inter-war period (Psalidopoulos, 1989; 2011; 2018 Mazower, 1988; 1991; Kostis, 1986; 2013; 2018). The economic history scholarship has cast light on the challenges the Greek economy experienced during the 1920s, focusing on its foreign indebtedness and inflationary problems, combined with how the aftershocks of the Great Depression permeated the Greek economy, leading to the abandonment of the Gold Exchange Standard (GES) and the default in 1932. There is also a limited but growing literature focusing on the political turbulence and polarisation in Greece during the inter-war period and how it culminated in the demise of democracy (Mavrogordatos, 1983; 2015; 2017; Daphnes, 1997; Kitromilides [ed.], 2006; Kakouri, 2015; Mavrogordatos and Chatziiosif [eds.], 2019).

Earlier work examining the crisis of the 1930s has faced criticism for overemphasising the so-called 'foreign factor' (Freris, 1986; Minoglou-Pepelasis, 1993; Christodoulaki, 2015), and many explanatory frameworks lack a distinct theoretical anchor. While the existing scholarship focusing on the 1930s offers valuable insights and empirical data on the political and economic developments characterising the period, combined with the country's relationship with its international creditors, it does not adequately establish a coherent and comprehensive link between the political and economic crises Greece experienced during the inter-war period. Furthermore, this body of literature lacks a contemporary perspective and hence, fails to investigate the longstanding legacies of the Great Depression in the Greek-specific setting.

The second sub-body of the scholarship focusing on the Greek-specific setting of the 1930s consists of a novel, but relatively limited strand, which comparatively examines the inter-war period with the 2010s (Dellas and Tavlas, 2013: 491-520; Chouliarakis and Lazaretou, 2014; Lazaretou, 2015; Chouliarakis *et al.,* 2017). The main shortcoming of these comparative analyses is their quantitative focus, overlooking the role of politics when comparing the post-1929 and post-2008 economic crises.

The third sub-body of literature is related to an emerging historical scholarship focusing on the Greek-specific setting from a comprehensive perspective (i.e., across time). Reinhart and Trebesch (2015) argue that financial and economic troubles, including excessive foreign indebtedness, pronounced experiences with global downturns, and sovereign defaults, have been indispensable features of modern Greece. While the authors admit that "the Greek experience is far from unique", they also suggest that Greece's history "*serves as a broader precautionary note for other countries that are 'addicted' to foreign savings*" (Reinhart and Trebesch, 2015: 2, 17, emphasis added).

Their work sparked a debate on the perennial features characterising the Greek economy, especially its foreign indebtedness, combined with the recurrent sovereign defaults in Greek economic history (Christodoulakis, 2013; 2019; Kalyvas, 2015; 2021; Waibel, 2015; Dertilis, 2016). Psalidopoulos (2019) recently examined Greece's externally sponsored loans since the Greek Wars of Independence in 1821. Although the 1930s and the 2010s are examined as isolated case studies in this body of literature (Morys, 2015; 2021; Christodoulakis, 2019; 2021, Alogoskoufis, 2021), the interplay between politics and economics remains under-researched. In addition to underplaying the importance of the so-called "politics of things" and the literature's broader absence of a theoretical anchor, there remain significant gaps in understanding how pre-existing political conjunctures conditioned the country's response during the outbreak of the crises.

This thesis immerses insights from all four sets of literature outlined above, addressing their gaps and seeking to make a more distinct contribution to Greece. Instead of focusing on aggregate data, grouping countries, or exclusively focusing on the post-2008 period, this thesis connects the 2010s with the 1930s in a single-case framework focusing on political economy. This approach could deepen our broader historical understanding of the domestic and international context surrounding the outbreak of the two crises, allowing us to gain insights into the underlying causes and effects of economic crises.

For several reasons, a historical comparison between the post-1929 and post-2008 focusing on the Greek political economy is necessary. *First,* employing the methodological approach of Comparative Historical Analysis (CHA) to comparatively examine the two most severe crises in modern history from a longer historical perspective enables a deeper understanding of the Greek economy's vulnerabilities and structural and institutional weaknesses. A comparative- and historically-oriented investigation between the 1930s and 2010s can help us comprehend the historicity of the domestic setting more adequately, offering a more comprehensive understanding of how international economic crises affect the Greek economy over time.

Second, comparing the post-1929 and post-2008 crises can reveal the resilience of some domestic features and produce some macro-conclusions on how the domestic political and economic landscape has changed over time. Integrating perspectives from political economy, political science, and economic history can provide a more holistic approach, allowing for a more nuanced understanding of how some endogenous features expose Greece to economic shocks, and exacerbate its response to financial-cum-economic crises. Such a comparison can yield crucial insights into the interplay between economic and political instability and the mutually reinforcing relationship between political and economic crises.

Third, notwithstanding the numerous analogies made by policymakers and the economics literature on the Great Depression of the 1930s and the Global Financial Crisis of the 2010s, the existing scholarship is characterised by an underlying disagreement over the existence of recurring patterns or parallels between the two crises. While Eichengreen (2015) presented a detailed account of the impressive similarities and differences between the Great Depression of the 1930s and the Global Financial Crisis of the 2010s, systematically comparing the two shocks, historians such as Tooze (2015) and Psalidopoulos (2018) consider the attempt to compare the two arguably isolated periods – the 1930s and the 2010s – to be "reductionist, irrelevant and misleading". This disagreement indicates a fundamental cleavage between the economics and history scholarships vis-à-vis their underlying understanding of the parallels that can be drawn between economic shocks, especially the 1930s and the 2010s.

A voluminous economics scholarship explores the importance of debt crises, boom-and-bust cycles, and other global macroeconomic shocks (Friedman and Schwartz, 1963: 308; Minsky, 1982; Shiller, 2011). However, the history scholarship refrains from suggesting recurring patterns between different historical periods. This contrast can be found in Tooze's statement that (2019: 142-143) we should "not assume that financial crises are essentially repetitive phenomena with an unchanged basic logic." (Garside, 2007; Clavin, 2013). These competing perspectives stem from factors, including economists' and historians' distinct perspectives, methodologies, and time horizons. Kindleberger and Aliber (2015: 26) argue that while economists "search for patterns in the data" and focus on inferring "systematic relationships between an event and its antecedents," historians "view each event as unique." The authors conclude that while "history is particular," "economics is general" (Kindleberger and Aliber, 2015: 26).

Against this background, a CHA, immersing economists' and historians' perspectives and built around a sound theoretical anchor, can reconcile the competing perspectives between economists and historians. This thesis argues that adopting the comparative historical approach to investigate the two most severe crises in Greece's financial history can allow us to identify similarities and differences between the two periods. Ultimately, such a comparison can yield insights into how the country's complex institutional and political context and other specific characteristics shaped the immediate response to these economic shocks, bridging the motivational "why" with the structural "how" questions in political economy. In addition to allowing us to detect recurring patterns between the two periods and understand the unique characteristics of each period, a structured comparison might yield crucial insights into the effectiveness of policy responses, the global interactions encompassing them, and how Greece's position in the international system has evolved over time. Since most analyses focusing on Greece's experiences with crises inadequately highlight the role of deeply entrenched and historical processes, this dissertation explores both crises without eschewing the international system and the country's relationship with its creditors and partners, isolating the historicity and peculiarities of the domestic setting.

The thesis is guided by the following central research question (RQ):

Which factors shaped Greece's immediate response to the post-1929 and post-2008 crises?

To answer this central RQ, I will focus my attention on three supplementary sub-questions (SQ):

- **SQ1** *What were the core features of the Greek political and economic system in the period preceding the outbreak of the crises in the 1930s and 2010s?*
- **SQ2** *How did the economic crises of the 1930s and the 2010s manifest themselves domestically and internationally?*
- **SQ3** *How did Greece's international creditors respond to the country's economic predicament, and what was their underlying recipe to mitigate the effects of the crises?*

To address these questions, the thesis adopts the theoretical anchor of Historical Institutionalism (HI), which urges us to "go back and look" at the historical origins of contemporary institutional arrangements (Pierson, 2004: 47). Specifically, I highlight the resilience of historically embedded features of Greek political economy during the two crises as a means of providing theoretically grounded answers to the research questions outlined above.

To achieve this, my comparative historical investigation, examining the two most severe economic shocks in Modern Greek history – the post-2008 Global Financial Crisis and the post-1929 Great Depression – builds its analysis around HI's theoretical insights, which will be combined with the resilience of the structural and institutional traits defining the domestic setting. This thesis argues that Greece's immediate response to both crises was inextricably linked to "path-dependent pathogens", in particular:

1) The adversarial nature of the Greek political system.

2) The patron-client relationships between the Greek political apparatus and the electorate (which I describe as *patronage politics*).
3) The state's prominent role in the Greek economy, or *étatism*.
4) The endemic weaknesses of the Greek public administration (PA).
5) Greece's systemic problems in implementing externally prescribed reforms or *reform capacity*.

This thesis marks the first study to compare the 1930s and the 2010s from a historical political economy perspective. This dissertation hopes to be remembered as the pioneering work establishing parallels between the 1930s and 2010s vis-à-vis political economy. It is also the first study to simultaneously apply the Historical Institutionalist theoretical framework and the methodological approach of CHA within the Greek-specific setting. This thesis makes an important contribution to the Greek Political Economy literature and the broader burgeoning literature focusing on the country's experiences with economic crises. HI's emphasis on *path-dependency* will allow me to ascertain some endogeneities characterising the historicity of the Greek political system and economy, which appear to be resilient to long-term change, making a crucial contribution to the scholarship examining Greece's endogenous idiosyncrasies. By comparatively examining the two most significant financial and economic crises Greece experienced in its 200-year history, this thesis also identifies some original parallels and recurring patterns between the two periods, combined with a novel understanding of the historical roots and propellants of the Greek Crisis of the 2010s.

Above and beyond the existing scholarship and its gaps, which I aim to address, the core contribution to knowledge that this PhD thesis makes pertains to the broader historical and structural factors shaping and amplifying the impact of the two crises combined with how they conditioned the immediate response of the two crises. By comparing the 2010s with the 1930s with a sense of historicity and linking the contemporary aspects of the crisis to the deeply entrenched features of Greece's political economy, this thesis offers crucial insights into the cyclical nature of political and economic crises, which can be applied to other countries. This thesis hopes to allow future scholars to understand continuity and change in Greece by highlighting the historicity of the domestic setting, especially the detrimental role that the domestic political economy can play against the backdrop of economic shocks more adequately.

Although this dissertation represents a *single-country case study* focusing on the Greek-specific setting, its insights may apply to peripheral countries characterised by chronic economic weakness and resistance to externally prescribed economic remedies. By immersing perspectives from political science, political economy, and economic history, the key themes adopted for this thesis' conceptual backdrop, such as the reputational dimension in sovereign lending, externally prescribed conditionalities, and external dependence, provide a comprehensive framework for analysing a country's relationship with its creditors, and the impact of this relationship on the implementation of externally prescribed policies. The conceptual optics of *conditionality, credibility*, and *external dependence*, offer a new perspective for understanding the relationship between a debtor country and its creditors, which can be extended, qualified, and adapted by future researchers in other settings (Calvo *et al.,* 2006; Tomz, 2007).

This thesis's conceptual backdrop makes a notable contribution to the burgeoning scholarship focusing on abrupt reversals in international lending, sudden stop episodes, reputational factors, and sovereign defaults. This thesis also aims to be noted for formulating a more robust conceptual framework for examining the political economy of economic crises and understanding the effectiveness – or lack thereof – of externally-induced adjustment. The conceptual innovations and theoretical peg it adopts to ascertain the *path-dependent pathogens* could be used to examine countries which have historically experienced a high frequency of sovereign defaults and indebtedness, such as Argentina, Brazil, Ecuador, Mexico, and Turkey (alphabetically), which are portrayed in the literature as *serial defaulters* (Kohlscheen, 2007). Therefore, this thesis hopes to offer valuable insights into how some systems are inherently resistant to long-term change due to some endogenous political and economic features.

Adopting Historical Institutionalism as a theoretical anchor to examine the two crises is another crucial aspect of this doctoral dissertation, distinguishing itself within the comparative historical literature focusing on Greece. This thesis hopes to be remembered for its rigorous application of the historical institutionalist approach to generate a more nuanced understanding of the historicity of the Greek-specific setting in the context of two distinct time-periods. The underlying argument is that certain features of the domestic political and historical setting played a critical role in making the country more vulnerable to economic shocks and shaping its response to crises.

This thesis aims to explain the factors that conditioned Greece's immediate response to the two crises but does *not* seek to provide conclusive answers as to whether these two episodes triggered a *paradigmatic shift* in the country's political economy. Since Greece exited its third bailout only in 2018, it is too early to determine the long-term legacies of this latest episode in economic crisis management. Neither is it clear that the post-2008 turmoil had the same "epoch-changing effect" as the Great Depression (Cassis and van Helten, 2021: 10). That being the case, it concurs with historians such as Tooze (2019) arguing that the history of the crisis does not stop there, and hence, at the time of writing, it is too early to discern whether the post-2008 crisis can be classified as a *critical juncture*. While this thesis argues that the crisis was a *turning point* for the country in terms of the degree of foreign intervention in the Greek political economy, it maintains that its long-term consequences are still being shaped.

By adopting HI, this thesis presents an innovative understanding of the deeply entrenched causes and propellants of the crises of the 1930s and the 2010s and provides fresh insights into the idiosyncrasies – framed as *path-dependent pathologies* – characterising Greek political economy. Using this approach, this thesis identifies the path-dependent pathologies of the Greek political economy and explains how they shaped the country's response to these economic shocks and contributed to the persistence of the crises. By adopting HI, this thesis presents a more theoretically informed understanding of the domestic setting, extending and adapting perspectives from economic history, political science, and political economy. By doing so, it hopes to be noted for linking the existing political economy literature to HI's theoretical toolkit casting light on the path-dependencies characterising Greek political economy. Theoretically, my original argument is that *path-dependency* not only conditions a country's response to economic crises but can also prolong the duration of these shocks by constraining decision-making and obstructing change from occurring.

Furthermore, this thesis hopes to be remembered for making a significant contribution to the existing Greek political economy literature with the theoretical and empirical insights it deploys for understanding the cyclical relationship between political and economic crises in Greece. It argues that there was a linkage between the economic and political crises Greece experienced in the 1930s and 2010s, reconciling the examination of the two in the existing scholarships. Finally, this thesis would like to be noted for its insightful examination of the economic and political factors – and the interplay between the two – that contributed to the crises of the 1930s and the 2010s and how domestic political economy acted as an impediment to the country's immediate response to those shocks.

As **Figure 1** illustrates, the *independent variable* of this PhD thesis pertains to the *sudden stop* triggered by the post-1929 and post-2008 exogenous shocks, combined with the country's *external dependence* and lack of *credibility*. I underscore that the Greek external dependence, combined with the country's *credibility deficit*, compounded its exposure to the shock, resulting in stronger *conditionality* by the creditors.

<u>Figure 1: The Variables Examined</u>

Independent Variable ▼

'Sudden stop,'
Role of *external dependence*,
Credibility

Dependent Variable ▼

Immediate response to the crisis

Intervening Variable ▼

The key features of the Greek political system (defined as *path-dependent pathogens*) and

The demands of Greece's international creditors

The *dependent variable* for this thesis' analysis pertains to the Greek political system's immediate response to the crisis. Apart from closely examining the demands of international creditors and their relationship with Greece, this thesis focuses on each crisis' politico-economic developments, precisely, the following three phases, reflecting the structure of the empirical chapters:

i) The period leading up to or setting the stage for each episode.

ii) The outbreak of the crisis; and

iii) the response to the crisis.

To gain a comprehensive understanding of the policy instruments and reforms implemented to address each crisis, this thesis explores the systemic characteristics of the Greek political economy (see **Chapter** 2) and the web of endogenous and exogenous interactions that occurred in the immediate aftermath of the outbreak of each crisis. The domestic *path-dependent pathogens* outlined above are considered *intervening variables* conditioning the *dependent variable* in both cases (see **3.3**; **4.3**). The comparative analysis of the relevance of *path-dependent chronic pathogens* in the 1930s and the 2010s follows in 5.3.

For its empirical base, this dissertation relies on extensive *primary material* in Greek, English, and French collected during the archival fieldwork spread between Athens and London between May 2019 and February 2020. For the first empirical case study – the 1920s and 1930s – in Athens, research was conducted at the archives of the National Bank of Greece (NBG), the Bank of Greece (BoG), the Benaki Museum, and the Greek Parliament, or *Vouli*. In London, the Archives of the Bank of England (BoE) and the Foreign Office were consulted, including the Corporation of Foreign Bondholders (CFB), or *Greek Extracts*, consisting of more than five hundred volumes of cuttings from the British press.

For the second empirical case study focusing on the 2000s and 2010s, eight semi-structured face-to-face 'elite' interviews (Harvey, 2011: 434) were conducted with some of the key players of the crisis, including former Ministers, Central Bank Governors, and technocrats from the IMF and the European Commission. Fourteen private communications with academic and policy experts were facilitated and transcribed. A table of these interviews is appended at the end of the thesis; all interviewees sought and gave explicit consent but will remain anonymous. All the notes comprising anonymous data will be destroyed following this PhD thesis; completion (Wiles *et al.,* 2008; Surmiak, 2018).

In addition to the interviews, private communications and archival material, this dissertation incorporates policy reports, macroeconomic analyses and sectoral studies published by international organisations such as the IMF, the Organisation for Economic Cooperation and Development (OECD), combined with the EU, and its numerous institutions (i.e., the European Council, European Commission, the European Stability Mechanism, the European Central Bank, and the European Court of Auditors). To maximise the accuracy and reliability of the data collected from semi-structured elite interviews were cross-referenced against their peers and other existing accounts.

Key secondary material includes the seminal scholarship focusing on Greece during the inter-war period (Kostis, 1986; Psalidopoulos, 1989; Mazower, 1991) and memoirs, monographs and biographies of some of the protagonists of the 1930s (Dritsa, 2012; Kakrydis, 2017; Pantelakis, 2018; Papadakis, 2020) and the 2010s (Papaconstantinou, 2016; Varoufakis, 2017; Dijsselbloem, 2018; Dendrinou and Varvitsioti, 2018) both in Greece and abroad (Bernanke *et al.,* 2019, 2020; Geithner, 2014).

The dissertation consists of five chapters. *Chapter 1* fleshes out the conceptual building blocks underpinning this dissertation – *conditionality*, *credibility,* and *external dependence* –that also form the backbone of the empirical analysis in Chapters 3 and 4, combined with the concluding comparative chapter in Chapter 5. To link the theoretical insights associated with *conditionality* with its applicability in practice, it examines three different conditionality regimes and the mechanisms each of them have deployed to ensure compliance, stressing the mutually reinforcing relationship between *credibility* and *conditionality;* it stresses the role of *ownership* and *reform capacity* in the context of externally induced adjustment. I argue that when countries suffer from a *trust deficit* and generally lack credibility, their creditors oblige them to comply with more onerous conditions. This chapter also engages with the scholarship focusing on the relationship between economic development and indebtedness – broadly understood as *external dependence* – and summarises the debate between austerity and stimulus, which was rejuvenated in the post-2008 period.

Chapter 2 is divided into three parts. *First*, it discusses the importance of *institutions* and why they exist and endure, synthesising the framework of Historical Institutionalism and its temporal concepts, such as *path-dependence* and *critical junctures*. This chapter highlights the usefulness of HI in comprehending the internal dynamics of political and economic systems and institutions, combined with the role of historical legacies in contemporary decision-making. *Second*, it links the theoretical backbone of this dissertation with Greece, shifting its attention to the Greek-specific setting. While rekindling the Greek political economy from a comprehensive perspective, I extrapolate five perennial features characterising the domestic setting from the existing scholarship, which I describe as the *path-dependent pathogens*. In addition to identifying their relevance and applicability in the period preceding the outbreak of the post-2008 crisis, this chapter immerses perspectives on how they have impeded the implementation of externally prescribed reforms, also described as *reform capacity*. *Third*, it presents the research design and methodology underpinning the doctoral dissertation and operationalises the HI approach for future researchers seeking to identify path dependencies or pathogens in any case and Greece specifically. It also fleshes out an underlying understanding of deep-seated change.

Chapters 3 and 4 represent this dissertation's empirical case studies, focusing on the periods preceding the post-1929 Great Depression and the post-2008 Global Financial Crisis, examining these crises' outbreaks, manifestations, transmissions, and responses. The two crises are analysed separately to set the stage for the structural comparison formulated in **Chapter 5**. Each empirical chapter immerses perspectives from the scholarly consensus on each period, both in the international and Greek-specific setting, describing and analysing the prelude to the crisis, how each crisis burst into the agenda, and how it was dealt with. Moreover, it stresses how the key features of the Greek political system – defined as *path-dependent pathogens* – conditioned the country's response to the post-1929 and post-2008 crises.

Chapter 5 concludes by summarising the presented work, reviewing the similarities and differences between the two case studies – the Great Depression of the 1930s and the GFC of the 2010s. This chapter contains three parts. *First*, it highlights this thesis' methodological and theoretical contributions. *Second*, it identifies the structural similarities and differences characterising the Greek-specific and international setting in the prelude, manifestation, and response of the post-1929 and post-2008 economic crises. The underlying argument is that while the two crises were *not* identical, they resemble striking similarities and analogous circumstances in their structural propellants and triggering mechanisms. *Third*, it broaches the future research contours emerging from the systematic historical comparative analysis of the two crises for studying Greek Political Economy and the broader investigation of economic crises such as international *sudden stops*.

The next chapter engages with the conceptual backbone of the thesis and sketches out the key optics which will be utilised to formulate the empirical analysis of this *single-country* CHA of two *case studies* – the Great Depression of the 1930s and the Eurozone Crisis of the 2010s.

Chapter 1

Establishing a Conceptual Backdrop for the Study of Economic Crises

Introduction

In the introduction, I discussed the broader contours of the thesis. This chapter explores the conceptual underpinnings, which will form the backbone for the theoretical chapter and empirical analysis focusing on the two crises of the 1930s and the 2010s (see **Chapters 3 and 4**). To support this thesis' comparative research design and provide a bridge between the *case studies* examined (i.e., the Great Depression of the 1930s and the Eurozone Crisis of the 2010s), I engage with two key theoretical sets of literature. *First,* I blend perspectives from the International Political Economy (IPE) and International Relations (IR) scholarships, deriving three key conceptual building blocks: 1) *conditionality*, 2) *credibility* and 3) *external dependence. Second*, to detect continuities and changes in the Greek political economy against the backdrop of the two crises, these conceptual optics are rekindled with the theoretical framework of Historical Institutionalism (HI) (see **Chapter 2**).

By exploring the conceptual underpinnings of this single-country case study and laying out the conceptual framework, this chapter will enable us to address the main research question (RQ) and sub-questions (SQ) guiding this PhD thesis. As noted in the introduction, these are the following:

Which factors shaped Greece's immediate response to the post-1929 and post–2008 crises?

To answer this central RQ, I will focus my attention on three supplementary sub-questions (SQ):

- **SQ1** *What were the core features of the Greek political system in the period preceding the outbreak of the crises in the 1930s and 2010s?*
- **SQ2** *How did the economic crises of the 1930s and the 2010s manifest themselves domestically and internationally?*
- **SQ3** *How did Greece's international creditors respond to the country's economic predicament, and what was their underlying recipe to mitigate the effects of the crisis?*

The optics of *conditionality*, *credibility* and *external dependence* will also reflect the empirical chapters' structure and are theoretically rekindled with the HI framework to detect continuities and changes in the Greek political economy (see **Chapter 2**).

Section 1 presents a conceptual discussion on *conditionality*, exploring how tangible mechanisms, such as "stick" and "carrot" approaches, ensure compliance. Various types of conditionality (e.g., positive vs negative; formal vs informal; first vs second generation) are examined before focusing on three different conditionality regimes: (1) the EU accession process; (2) the International Monetary Fund (IMF); and (3) the European Monetary Union (EMU). The main takeaway is that conditionality can be effective when high rewards encourage the implementation of institutional and policy reforms. Creditors like the IMF, World Bank, and the EU have facilitated significant policy changes in recipient countries through incentives (carrots) and conditions, threats, or penalties (sanctions).

The effectiveness of conditionality depends on factors like the recipient country's political economy context, track record and capacity to implement reforms. This thesis expands on the literature by identifying three prerequisites for successfully implementing externally prescribed institutional and policy reforms or conditionality: ownership, reform capacity, and political will from the government and key stakeholders.

Section 2 investigates the relationship between credibility and conditionality in international sovereign lending. The fundamental conditions for ensuring compliance with conditionality are identified by engaging with monetary theory scholarship. The importance of ownership, reform capacity, and political will is emphasized, along with the self-reinforcing relationship between credibility and conditionality.

Ownership and reform capacity is crucial for several reasons. Firstly, recipient governments and stakeholders must view reforms as national policy objectives, not externally imposed schemes. Active involvement in designing and implementing policy reforms, known as ownership, is essential. Secondly, successful reform implementation depends on broader policymaking ability, including institutional capacity, technical expertise, and administrative efficiency—referred to as reform capacity (Drazen, 2002). Lenders can support capacity-building through technical assistance and institutional development programs. Thirdly, reform commitment is vital for successfully implementing conditionality (Carbone, 2007). Consensus on objectives and balancing short- and long-term priorities are necessary for effective implementation. Fourth, effective monitoring and evaluation of conditionality and ongoing lender support are required for recipient countries to implement reforms and meet stipulated conditions. However, when conditionality is implemented during a crisis, consensus on the causes and remedies of the crisis is paramount. If a blame-shift strategy is adopted, this thesis agrees with Matthijs (2008: 70) that it should be classified as "a crisis without the required solution."

Section 3 examines the debate surrounding foreign indebtedness, external dependence, and economic development (the 'debt-growth' nexus) (Presbitero, 2005). To contextualise the empirical analysis, it engages with concepts like the original sin, debt overhang, and debt intolerance. In addition to analysing the relationship between debt and economic growth, it summarises the debate on fiscal consolidation and stimulus, helping to extrapolate the political economy of the Eurozone crisis and its response (see **4.2.I** and **4.2.III**). The key is that despite Reinhart and Rogoff's (henceforth, R&R) influential 90% debt-to-GDP ratio as a precise threshold when indebtedness starts to impede growth, the post-2008 period saw burgeoning methodological, theoretical, and policy disagreements, leading to a more fundamental debate on the effectiveness of fiscal consolidation or austerity. I argue that these complexities suggest a lack of a one-size-fits-all answer.

The conceptual optics of conditionality, credibility, and external dependence offer a new perspective for understanding debtor-creditor relationships, which future researchers can expand, qualify, and adapt. This thesis contributes to scholarship on abrupt reversals in international lending, sudden stop episodes, reputational factors, and sovereign defaults. It also aims to establish a more robust conceptual framework for examining the political economy of economic crises and understanding the effectiveness—or lack thereof—of externally-induced adjustment. Therefore, this thesis presents an insightful understanding of these concepts, laying a foundation for future research in this field and providing a framework that can be expanded and adapted to various geopolitical and economic contexts.

1.1 Conditionality

Conditionality, in a broad sense, concerns the contingent transfer of resources based on specific actions required by a recipient, typically a government, that ought to be undertaken as dictated by a sponsor or creditor such as an international organisation (Stokke, 1996: 201; Checkel, 2002: 17; Sasse, 2008: 303). This process involves tangible rewards such as fund disbursement or political, economic, and security benefits (Hughes *et al.,* 2004: 14).

Three main aspects are generally agreed upon in the realm of conditionality. First, it serves as an instrument for the pursuit of objectives rather than being a goal in itself (Stokke, 1995: 3). Second, it often operates within an environment marked by power asymmetries and contested sovereignties (Stokke, 1995: 94). Third, its success is contingent upon the expected benefits outweighing the adjustment costs (Sjursen, 2003: 494; Shimmelfennig and Sedelmeier, 2007: 89).

The evolutionary trajectory of conditionality has evolved through historical phases, each marked by a distinct approach to debtor-creditor relations. In the late 19th century, creditors (i.e., Britain, France, and Russia) imposed extrinsic sanctions or "super-sanctions" on defaulting debtor countries during the Long Depression, leading to the establishment of the International Financial Commission (IFC), which seized control over defaulting countries' (i.e., Egypt, Turkey, Serbia, and Greece), customs offices and vital monopolies (see **3.1.I**). While in some cases, creditors (i.e., the United States and European colonial powers) also resorted to military interventions, notably in Central America and the Caribbean (i.e., Costa Rica, Nicaragua, Guatemala, the Dominican Republic, and Venezuela), a tactic known as gunboat diplomacy (Mitchener and Widenmier 2011: 155-167; Tuncer 2015).

The inter-war period introduced a turning point for designing and implementing conditionality with the advent of formalised central banking paradigms and stabilisation programmes. While the Geneva Protocol formalised the central banking (CB) paradigm, emphasising monetary stability and fiscal discipline (Eichengreen, 1992), the stabilisation programmes disbursed by the League of Nations (LoN) - although varying in their particulars - emphasised fiscal prudence (i.e., balanced budgets) and structural reforms (see **3.1.III**), mirroring the fiscal constraints of modern conditionality. Therefore, this period saw conditionality's focus shift from the 'fiscal house arrest' of the late 19th century to the modern concept of economic and political conditionality of the late 20th century (Eichengreen, 1992; Clavin, 2013). Stokke (2005: 9-10) identifies two distinct "generations" of conditionality based on similarities in conditions employed and objectives pursued.

First-generation conditionality, or *economic conditionality,* traces its roots to the international disbursed during the late 19th century and early 20th century, combined with the post-1945 *conditionalities* stipulated in the macroeconomic assistance programmes disbursed from Bretton Woods institutions (i.e., the IMF and the World Bank). This norm prioritised neo-liberal reforms such as market liberalisation, privatisation, deregulation, fiscal discipline and administrative reform, collectively labelled as the *Washington consensus* (Williamson, 2002; Fierro, 2003: 95). The end of the Cold War and revived EU enlargement momentum catalysed a *paradigm shift* (see **2.2.III**) in applying *conditionality*. The ensuing

Second-generation, or *political conditionality*, encapsulates the "symbiosis between [liberal] democracy and development" (Nello, 2001: 79; Crawford, 2003: 142).

The emergence of *second-generation conditionality* prompted a dichotomy between *positive* and *negative* conditionality, with the earlier deploying the promise of rewards or benefits to elicit compliance (the so-called "carrot method"), often tied to moral and normative elements and the latter utilising punitive measures, threats, or sanctions, to revoke perceived rewards (commonly known as the "stick method"). While *positive conditionality* leverages expected benefits as an incentive mechanism, coined "reinforcement by reward", its negative counterpart employs "reinforcement by punishment" (Schimmelfennig and Sedelmeir, 2004: 670, 674; Koch, 2015: 99). Importantly, democratic governance is not a precondition in positive conditionality relationships.

Academic consensus purports the quintessential ingredient for the success of *conditionality* to be the "good servant attitude", or *ownership* exercised towards the conditionality programme by the recipient or debtor (Dyson, 2006: 8) (see **1.2.III**). Khan and Sharma (2001: 13) state that ownership "refers to a situation in which the policy content of the program[me] is like what the country itself would have chosen in the absence of [external] involvement". However, Koeberle (2003: 255) challenges this definition, framing *ownership as* "[The] commitment to aid-supported reforms by [the] country's authorities and a majority of domestic stakeholders".

In line with scholars, the IMF (2005: 67) emphasises that "Conditionality can reinforce country ownership – but cannot substitute for it". While conditionality can encourage policy shifts and overdue reforms, it cannot supersede ownership and domestic consensus-building in implementing reforms.

Now, I engage with three distinct types of *conditionality* pertinent to this thesis: (1) the EU's enlargement process (see **1.1.I**); (2) the programmes prescribed by the IMF (see **1.1.II**); and (3) within the context of the single currency's architecture (EMU) (see **1.1.III**), which are particularly relevant to this thesis. I highlight the enforcement mechanisms adopted to ensure compliance by examining these three conditionality regimes.

1.1.I EU Enlargement Conditionality: at the crossroads between 'first' and 'second generation' conditionality?

In the history of European integration, *conditionality* has evolved from a minor policy instrument used in the EU's agreements with third countries to arguably its most significant pillar(s), particularly within the context of its enlargement process (Hughes *et al. al.*, 2004: 18; Smith, 2011). Both scholars and policymakers consider *conditionality* as the primary catalyst responsible for the successful impact of EU enlargement. While facilitating political and economic stability in *conditionality* is also lauded as the driving force for economic development, domestic reform, institutional transformation, and modernisation, especially in the former Soviet states) (Král and Bartovic 2014: 4; Shields 2014).

Bronk (2002: 12) argues that the EU's *conditionality* regime represents the most rigorous and extensive conditionality approach – even when compared with the IMF and the World Bank. The EU's conditionality is distinctive for its exceptional scope and political and economic parameters, operating both internally (i.e., among the 27 member-states) and externally (i.e., with candidate members and 'third countries').

The 'principled' dimension of conditionality, encapsulated in the "Copenhagen Criteria" (1993 Copenhagen European Council conclusions), has been a focal point in research (Smith, 2003: 47). This foundation, guiding EU's post-1997 accession negotiations with candidate countries, demands stable institutions, a functioning market economy, and the ability to adopt the *acquis communautaire*, the obligations of EU membership (TEU, 1992: Article 49).

Analysing the EU's enlargement in the former Soviet states of Central and Eastern Europe, Schimmelfennig and Sedelmeier (2004: 664) underscore the mutually reinforcing relationship between *credibility* and *conditionality.* Schimmelfennig and Sedelmeier (2004: 662; 2005, b: 215) posit that conditionality's efficacy lies in the assured membership once conditions are met, with reform adoption hinging on the rewards and costs associated with EU political, economic, and administrative conformity. The implication is that the success of conditionality is intricately linked with the appeal of EU membership, thereby relying on candidates' cost-benefit analysis of EU alignment.

The fundamental weakness of EU *conditionality* is that its influence seems to wane once accession has been achieved (Börzel *et al.,* 2017: 162). Weak enforcement mechanisms within the EU often lead to 'backsliding,' where member-states diverge from agreed reforms, with violations of EU law being a resilient theme. For example, according to the EU's Annual Report on Monitoring the Application of EU Law, in 2020, there were over 1500 new infringement cases across member states (European Commission, 2021).

This 'backsliding' highlights a critical shortcoming in the EU's approach to conditionality. While EU membership's allure and associated benefits (financial assistance, access to the single market) are potent 'carrots' in the pre-accession stage, a dearth of effective 'sticks' post-accession allows for deviation from reforms and violations of EU law. Therefore, when the perceived rewards diminish or the costs are perceived as too burdensome, adherence may falter, revealing the potential brittleness of externally-induced adjustment, underscoring the need for enduring internal support for these reforms, also described as ownership (see **1.2.III**).

The next section engages with the *conditionality* sponsored by the IMF.

1.1.II IMF Conditionality

The previous sub-section engaged with the EU accession process. A burgeoning debate compares the EU- and IMF- prescribed conditionalities (Dreher, 2015; Nelson, 2014). This sub-section captures the evolution and transformation of the *conditionality* regime prescribed by the IMF.

The IMF serves as the global financial system's 'lender of last resort' (LoLR) (Kentikelenis *et al.,* 2016: 548), providing "conditional rescue financing" (also known as "bailouts" or "adjustment programmes") to countries experiencing balance-of-payments crises (IMF, 2021). Such countries resort to the IMF when they cannot borrow from private credit markets and grapple with significant macroeconomic turbulence. According to Article 1 (v), countries s are obliged to implement a series of reforms prescribed by the IMF as part of their rescue package (2020: 2).

Since the 'First Amendment' (IMF, 1969: 39), conditionality has been consistently featured in the IMF's articles and loans (Buirra, 2003). The IMF (2001: 7) defined *conditionality* as:

> "[The] *explicit link* between the approval or continuation of the IMF's financing and the implementation of certain specific aspects of [a] government's policy program[me]".

Essentially, *conditionality* outlines a member country's policies to access IMF resources. Over time, the IMF-sponsored *conditionality* evolved from broad quantitative targets to the detailed "micro-conditionality" concerning structural reforms and detailed conditions (Dreher *et al.,* 2015). It is important to note that the conditions stipulated in IMF adjustment programmes vary; each *conditionality* programme is "tailored to country needs and program objectives"(IMF, 2019: 2).

Besides addressing countries' *debt overhangs* (see **1.3.II**) and currency crises, the IMF's conditionalities increasingly focus on long-term objectives, from governance and enterprise reform (Koch, 2015: 100). Both the number and intricacy of conditions that countries must fulfil to secure (and maintain) access to funding have grown exponentially. The scholarship underscores that the IMF-prescribed conditionality is one of the most elaborate, influential, and sovereignty-intrusive forms of *conditionality* (Stone, 2008; Stubbs *et al.,* 2020).

Though similar in nature, EU and IMF conditionalities diverge in focus and extent. While EU conditionality aims to foster political stability and institutional transformation, IMF-sponsored conditionality is centred on macroeconomic stability and fiscal adjustments (see **1.3.III**). There is a vast difference in scale between the scope of EU and IMF conditionality; the earlier is primarily applied to 27 member states and potential candidates - and more marginally in the context of the Neighbourhood Policy; the latter applies its conditionality to a larger, and more diverse set of 190 countries, necessitating to tailor the economic circumstances of individual counters. In terms of their results, unlike the IMF's conditionalities which have been linked to exacerbating socioeconomic challenges, the EU-sponsored conditionalities have been hailed for catalysing democratisation and economic development. Both conditionality regimes have their merits but expose the unique challenges reflecting their distinct mandates. The next sub-section focuses on the *conditionalities* associated with the EMU accession process and its aftermath.

1.1.III Conditionality & EMU: a reasonable safeguard or a pandora's box?

The previous sub-section examined the IMF's conditionality encompassing a more diverse portfolio necessitating a more case-specific approach, with conditions tailored to the recipient country's unique macroeconomic and institutional conditions. The [Convergence] Criteria outlined within the Treaty of Maastricht (OJEU, C 325/5, TEU, Article 121, 1) stipulated essential conditions for joining the European Monetary Union (EMU), including specific targets for inflation, deficits, and debt, aiming to achieve a "high degree of sustainable convergence" (TEU: 11, and 41).

Both prior and after EMU membership is achieved, the EU's approach *conditionality* employs the "stick and carrot" approach, with an external constrain or *vincolo esterno* (Dyson and Featherstone, 1999: 452; Schmidt, 2020: 98), suggesting that as an external anchor, the EU's approach to conditionality triggers otherwise elusive domestic reforms in member states. This constraint urges member states to merely set nominal targets without describing how to fulfil them (Hopkin, 2015: 163).

In 1997, the pre-EMU *conditionalities* were complemented by the Stability and Growth Pact (SGP), which encompassed additional conditions for the member states once they had joined EMU, dubbed *post-EMU conditionality*. The EMU accession process represents a *sui generis* case of 'Europeanisation', demonstrating that the *hard*- front-loaded and *positive- conditionalities* encompassing Eurozone membership are not symmetrical to the soft and negative *conditionality* that countries have to comply with upon joining the EMU (post-EMU conditionality) (Dyson, 2007: 418; Blavoukos and Pagoulatos, 2008: 249).

Congleton and Hillman (2015: 436) point out that, unlike the *hard conditionality* countries must comply with before joining EMU, *post-EMU conditionality* was characterised by the *soft* criteria of the SGP. While both pre- and post-EMU conditionalities are vested with punitive mechanisms, post-EMU conditionality, the lack of effective coercive instruments (i.e., threats such as expulsion) and surveillance mechanisms (see **1.2.II**), resurfaced with a vengeance during the post-2008 crisis (see **4.1.III**; **4.2.I**) and exacerbated its effects within the Eurozone (see **4.1.III**; **4.2.I**; **5.2.I**). What further complicated things for the Eurozone was the excessive focus on crisis-prevention mechanisms and the lack of effective crisis-management instruments, such as the no-bailout clause.

Financial assistance within the EU was first sought by Hungary in November 2008, introducing transforming *conditionality* into the new *topos* of the EU's economic governance (Pisani-Ferry, 2014: 15; Tsoukalis, 2016: 4). In addition to being profoundly complex, the modalities related to intervention ignited severe pressure in the debtor countries of Southern Europe (e.g., Greece, Spain, Ireland, Portugal, and Cyprus). In addition to the polarising divide this drew within the Eurozone and among countries, the crisis's far-reaching political, social, and economic repercussions led to introducing new rules to mitigate *moral hazard* risks in the post-2008 period. Via a series of intergovernmental agreements (both inside and outside the scope envisioned by the Treaties), the EU introduced the 'Six-Pack,' the Fiscal Treaty on Stability, Coordination and Governance, which resulted in a more robust and intrusive EU-wide regulatory framework (also known as the "Fiscal Compact"),[1] and the 'Two-Pack' (see **4.1.III**; **4.2.I**; **4.2.II**) (EC, 2012, 2017; EP, 2014, 2015; Henning, 2017). Consequently, the Eurozone Crisis significantly transformed the distribution of competencies among EU institutions, agencies, and member

[1] The 'fiscal compact' merely refers to Title III of the TSCG.

states (De la Para, 2013: 7; Bressanelli and Chelotti, 2017: 6). The next section will explore the self-reinforcing relationship between *credibility* and *conditionality* with a specific emphasis on international sovereign lending.

1.2 Credibility, Reputation & Conditionality

The previous section examined conditionality as a concept and traced its evolution from the 19th century and the stick-and-carrot approach, focusing on the conditionalities sponsored by the EU and the IMF. This section delves into the elusive concept of credibility and its pertinence in conditionality and economic policy-making (Gheyele and Jacobs, 2016; Ho, 2017: 86).

1.2.I delves into credibility and its importance in international cooperation within international relations, engaging with aspects such as repeat play and issue linkage. It stresses that as an "essential currency" (Casler, 2021: 2), credibility can be broadly understood as the perceived likelihood of an actor honouring long-term commitments and "matching words to deeds", emphasising that it stands at the cornerstone of international sovereign lending (Press, 2005: 11; Yarhi-Milo, 2018). A credibility deficit triggers a rise in interest rates and sovereign debt yields, necessitating long-term commitments to restore trust. This discussion is linked with the theoretical discussion on institutions in **2.1**. The formation of expectations is central to understanding credibility; without credibility, states would not take each other's commitments seriously. I identify three pillars characterising credibility: first, it requires material evidence of capabilities and resolve, demonstrated through signalling behaviours (i.e., repeated interaction, information provision and past behaviour). Second, credibility must be systematically sustained, with consistency and reliability in signalling to sustain credibility, and the context, given its capacity to mould actors' signalling behaviours, intentions, and priorities.

1.2.II distinguishes credibility and reputation, exploring *reputation-based* and *borrowed-credibility* and the interplay between credibility and conditionality. It highlights that a mutually reinforcing relationship characterises reputational factors, conditionality, and credibility. Understanding these conceptual distinctions and examining the relationship between conditionality and credibility is crucial. Credibility extends to the interplay between domestic and international spheres; a state's domestic credibility or previous track record implementing reforms shaped its reputation in honouring its commitments. Therefore, building and maintaining credibility becomes a strategic tool in achieving domestic and international policy objectives.

1.2.III investigates the role of institutions in the credibility-conditionality nexus and how endogenous factors impact credibility. A country's credibility significantly influences the funding it can secure. Countries with robust reputations and credibility may access more favourable terms from international financial institutions (IFIs) or international actors. Conversely, countries with poor reputations may struggle to access funds or face exorbitant interest rates.

Being externally induced, agreements between recipient countries and creditors can be viewed as encroaching on sovereignty. Forging consensus around proposed reforms necessitates a robust commitment to reform, achievable via stakeholder consultation and collaboration. Transparent and participatory reform processes can be achieved through consultation and collaboration with stakeholders, including civil society and private sector organisations, ensuring stakeholder *ownership* and rallying support in favour of reform.

This thesis concurs with Jones (2016) in identifying three interconnected 'faces' of credibility: consistency, context, and coordination. By examining how credibility and conditionality reinforce one another, this analysis identifies the factors impacting a country's and a national government's credibility. While high credibility can lead to trust in a nation's commitment to conditions and improving outcomes, conversely, low credibility can breed scepticism, obstructing the effective implementation of reforms.

1.2.I Credibility & International Cooperation

Credibility broadly denotes "the expectation that an announced policy will be carried out" (Drasen and Masson, 1993: 4). Blinder (1999: 64-65) emphasises that "the hallmark" of *credibility* is "built up by a history of matching deeds to words", suggesting that credibility depends on policy-making history and institutional behaviour. Thus, a country's past behaviour and record of complying with commitments are crucial for international cooperation (Stein, 1982; Keohane, 1984).

Credibility exists when actors such as International Financial Institutions (IFIs), international organisations, and governments trust in fulfilling their counterparts' commitments (Issing, 1998: 256). Brunner et al. (2012) reiterate this point, emphasising that an actor gains credibility when acting according to their stated intentions. However, echoing Franklin, who suggested that "it takes *many good deeds to build a good reputation* [but] only *one* to lose it", Bordo and Siklos (2016: 63) highlight that credibility is gradually earned but can swiftly vanish. Thus, not merely the content of leaders' promises matters, "but the credibility of those promises" (emphasis added).

This thesis understands that a country's or organisation's credibility is susceptible to frequent and considerable changes over time. While rapid improvements in *credibility* are associated with the adoption of policy and monetary regimes, such as central bank independence and the adoption of fixed exchange rate systems (see **1.1.III**; **3.1.III**; **4.1.III**; **5.2.I**), credibility can abruptly dissipate during macroeconomic shocks, like financial crises and debt crises (Bordo and Schwartz, 1996; Eichengreen, 1997). As a "flow-like variable" (Bordo and Siklos, 2015: 3), credibility fluctuates when observers perceive potential deviations from objectives or commitments.

Tan (2001: ii) views *credibility* as "the belief by national and sub-national audiences in the capability and willingness of a [country] to deliver on its commitments". He distinguishes two components associated with credibility – structural and behavioural credibility. While the earlier relates to a country's ability to fulfil its commitments (i.e., capability and material interests), the latter pertains to its willingness to do so.

Behavioural and structural conditionality target recipient country institutions' behaviour and economic restructuring via neoliberal reforms, respectively (Stonks *et al.,* 1996; Clasen and Clegg, 2007: 166-197). The efficacy of these conditionalities in promoting economic stabilisation and growth remains a subject of scholarly debate (Horiguchi *et al.,* 2019; Scalise, 2022).

Signalling is integral to reputation-building and credibility enhancement in international sovereign lending and central banking. International Relations and Political Economy insights offer a valuable understanding of credibility's role in these dynamics. Understanding these dynamics helps ensure compliance with conditionalities, the "rules of the game" (Bordo and MacDonald, 2005: 1). Retaliation threats in repeat play (Tomz, 2007: 5) and issue linkage, where erratic behaviour in one area results in retaliation in another (Maggi, 2016: 513-564), serve as principal explanations for compatibility between credibility and cooperation in conditionality relationships. These mechanisms foster compliance and cooperation among actors, as exemplified by Greece's political and economic isolation due to its irredentist aspirations in the mid-1910s and early 1920s (see **3.1.I**; **3.1.II**) and the credible threat of expulsion from the Eurozone during the 2015 protracted negotiations (see **4.2.III**; Dendrinou and Varvitsioti, 2019).

The monetary policy literature emphasises improving credibility, "tying their hands" (Alesina and Tabellini, 1990) to external anchors, such as fixed exchange rate systems such as the Gold Exchange Standard (see **3.1.III**) and the European Monetary Union (see **1.1.III**). This thesis is also particularly interested in examining the relationship between *credibility* in the context of economic shocks, namely the economic crises of post-1929 and post-2008.

The next sub-section engages with the International Political Economy scholarship, distinguishing *credibility* from *reputation*, focusing on the distinction between *reputation-based* and *borrowed-credibility*, which is crucially important for the interplay between *credibility* and *conditionality*. Such a discussion is important as it illuminates the complex mechanics of international relations, shaping our understanding of the global political economy.

1.2.II Reputation, Credibility & Conditionality

The previous analysis highlighted credibility's importance as an "essential currency" (Casler, 2021: 2) for generating trust among actors such as governments, international organisations, and international financial institutions. I also discussed how countries could generate credibility by "tying their hands" to external anchors such as fixed exchange rate regimes—another crucial insight pertained to the linkage between credibility and conditionality.

This section explores reputation-based and borrowed credibility, underlining its significance in shaping borrowing terms and adhering to externally-prescribed adjustment programmes. Importantly, the discussion focuses on the credibility problem arising from the so-called "credibility problem" regarding time inconsistency and political instability, shaping a debtor nation's credibility in global lending and fulfilling conditionality.

Reputation vs Credibility

Tomz (2007: 10) defines reputation as "the impression others hold about an actor's preferences and abilities". In international sovereign lending, a positive reputation catalyses cooperation (Tomz, 2007: 14), with factors such as stability, transparency, and predictability bolstering the nation's credibility and reputation (Breen and McMenamin, 2013: 842). The rationalist school of the International Law (IL) scholarship positions reputation as the cornerstone of compliance with international agreements, hence credibility's crucial role in conditionality's success. The literature indicates that a state's reputation can be inferred from its historical compliance with international law and agreements, with past behaviour predicting future compliance (Guzman, 2008: 73).

Credibility and reputation evolve non-linearly (Bordo and Siklos, 2017: 208). While interconnected– because an actor's reputation will impact their credibility and vice versa –they are distinct(Belke *et al.,* 2012: 7). Credibility pertains to the confidence in a government's ability to attain its goals. In contrast, reputation refers to the generally held beliefs about a country's character (Drazen, 2000: 168). Countries establish credibility through a consistent reputation by "matching words to deeds"

(Forder, 2001: 16) and by using commitment devices to "tie their hands" (Bordo and Rockoff, 1996: 389) to external conditions, giving rise to reputation-based and borrowed credibility (Bronk, 2002: 28).

Reputation-based Credibility vs Borrowed Credibility

Reputation-based credibility emanates from an established track record, granting policy-makers discretion and strategic flexibility. Conversely, *borrowed credibility* arises from an actor's submission to an externally-controlled *commitment device*. Although *commitment technology* undeniably bolsters a country's credibility, it is not without its costs. Bronk (2002: 28) notes that it is "bought" because of the cost of giving up control or submitting to pre-set rules or conditions. Commitments are sustainable if the benefits outweigh the costs of adapting to the rules. Changes in political leadership can significantly impact a country's credibility and alter international creditors' expectations (Tomz, 2007: 20-22).

State Reputation, Conditionality & Sovereign Debt

Credibility and reputation are crucial to understanding borrowing terms and conditionality compliance. Firstly, credibility captures a broader perspective, highlighting historical legacies like defaults record, indebtedness levels, and reform implementation (Zenobia *et al.,* 2021). Other factors affecting a country's credibility include historical patterns of debt payments and broader compliance with the "rules of the game" or the "canon of the times" (see **3.1.III**; **4.1.III**).

Secondly, the distinction between reputation-based and borrowed credibility underscores credibility's different sources and how a country's reputation influences borrowing terms. Countries with strong reputations for sound economic management and policy implementation will borrow in more favourable terms (i.e., incur lower interest rates) (Tomz, 2007: 12), while those with weaker reputations may find borrowing more challenging. When a country is perceived as credible, its politics may be generally characterised by a "politics of adaption" (Lijphart, 1999: 1) and political stability. Additionally, when a country has systematically been able to "match its words with deeds" (Forder, 2001: 16) and requires international assistance due to the severe impact of a crisis, it will be able to borrow on more favourable terms than a country with a weaker reputation. Thirdly, a country's reputation and credibility can significantly influence the terms of adjustment programmes prescribed by international financial institutions or conditionality. A strong reputation for economic stability and policy implementation, evidenced by a history of "matching words to deeds" (Forder, 2001: 16), leads creditors to perceive a country as a low-risk borrower, increasing their willingness to lend (Tomz, 2007: 20-22). Conversely, a country with a poor reputation and longstanding macroeconomic weaknesses, economic mismanagement, and policy instability may find it more difficult to borrow and pay higher rates to compensate for the perceived risks (Tomz, 2007: 12).

This analysis underscores reputation and credibility's essential role in conditionality relationships and how they intertwine. In exploring credibility in central banking - a vital concept for central banking regimes and all "rules-based" regimes (Koremenos *et al.,* 2001: 62) - this discussion critically examines the interplay between credibility and conditionality. The underlying argument is that *credibility* and *conditionality* are mutually reinforcing both for the recipient country, or borrower, and its lenders. The subsequent section will critically discuss the credibility problem's aspects, which play a crucial role in international sovereign lending, ensuring compliance.

1.2.III Credibility & Conditionality: are they mutually reinforcing?

The previous sub-section engaged with the importance of credibility in international cooperation; this with the ‘credibility problem’ related to time inconsistency and political instability in international cooperation. Expanding on Bronk (2002: 6), credibility in conditionality hinges on three elements. First, the rules instituted via conditionality must align with the recipient government’s objectives and maintain coherence even under "unfavourable circumstances" (Sedelmeier, 2017: 347; Crossley, 2020; Traianou, 2021: 3). Bronk (2002: 15) asserts that when employing commitment devices associated with borrowed credibility, it is “better not to have tried [at all] than to have tried and failed.” Second, public support in favour of these reforms in the recipient country is essential for sustaining these reforms (Claumberger and van Hüllen, 2020: 6; Shim, 2022)

Third, the "*Guardian* actor" (e.g., international organisations, IFIs, or non-state actors) must be credible (see **1.1.I**; **1.1.III**; **3.2.III**; **4.2.II**; **5.2.II**) and employ monitoring, enforcement, sanctioning and benchmarking mechanisms (Broone *et al.,* 2018).

The 'Credibility Problem': time inconsistency & political instability

The credibility problem refers to the fact that "an optimal policy announced at time = 0 ceases to be optimal at every future point in time t > 0" (Levine *et al.,* 2008: 728). This problem can cause policymakers to reconsider priorities and abandon commitments, leading to two issues: time inconsistency and political instability.

Time inconsistency refers to governments reneging on commitments after benefit disbursement, leading to moral hazard problems (Jeannie and Zettelmeyer, 2001: 410). Governments may undertake excessive risks or unsustainable policies, depending on future bailouts. Political instability arises when proposed reforms are politically costly, potentially prompting resistance undermining conditionality (Willett, 1988; Alesina, Cohen and Roubini, 1991; 1997).

The successful implementation of reforms requires commitment and capacity (Koeberle, 2005: 68). Without these, adjustment lending may fail, leading to reform delays and debt burdens. Successful conditionality depends on domestic consensus and political willingness, which cannot be externally imposed (Moury and Freire, 2013: 46).

External programmes may face domestic opposition (e.g., from labour unions or social welfare groups). Despite potential unpopularity, the recipient government must consolidate reform support and engage domestic stakeholders in the programme's design and implementation (Koeberle, 2005: 9; Lamdany and Edison, 2012: 195; IMF, 2019: 2).

Securing broad-based support or "buy-in" from key stakeholders is crucial (Koeberle, 2005: 9). Without consensus, reforms may face opposition, leading to economic instability, political turmoil, and default risk. Proactive governments can foster credibility and secure continued financial assistance or future programme support (Hall and Lamont, 2013; Koch, 2014: 97-108; Shah, 2017).

Successful conditionality implementation relies on a shared understanding of domestic problems. In crises, consensus on the crisis's causes and remedy is vital, allowing conditionality to serve as an opportunity rather than an externally-imposed scheme. Thus, framing foreign-induced conditionality significantly influences reform implementation and policy impact (Bird and Willett, 2004: 423-450).

Moury *et al*. (2021: 19) identify credibility as the cornerstone of trust and shared understanding during negotiations. They delineate three distinct situations: the first is where a government, under coercion or in disagreement with programme conditionalities, may not adopt substantial policy changes. The second instance, where an accord between the recipient government and creditors on the domestic issues and their remedies fosters the effective implementation of reforms. The third scenario arises when the government partially concurs with lenders' principles, leading to potential political polarisation (Bird and Willet, 2004: 429).

Conditionality's successful execution rests on the twin pillars of ownership and reform capacity. This thesis extends this concept by suggesting that recipient countries must not only accept the externally-prescribed programme but also demonstrate a commitment to the reforms, which presupposes a consensus on crisis origins and mitigation strategies.

Ownership

Ownership refers to the degree of support from a debtor country's domestic political system towards the objectives of externally-prescribed conditionality (Khan and Sharma, 2001: 16). However, a lack of ownership can exacerbate dependency on International Financial Institutions (Boughton and Mourmouras, 2002: 21, 90; Khan and Sharma, 2003: 227-248; imf.org, 2023; Buira, 2003: 9, 10, 14, 15, 26).

Recipient countries are exercising ownership and view reforms as indigenous initiatives rather than external impositions. This perspective frames ownership as a pathway to reform implementation (Johnston and Wasty, 1993; INT-2; INT-6). In this nuanced interplay between creditors and debtor countries, creditors must demonstrate flexibility and responsiveness (Boughton, 2003: 8). Empirical data suggests that augmenting the number of conditions does not necessarily improve compliance or successful reform implementation (IMF, 2012: 35; Molle, 2015: 177). Instead, ownership can significantly enhance a programme's success (Khan and Sharma, 2001: 12, 14).

Reform Capacity & the Implementation of Conditionality

Reform capacity, representing a recipient government's policy performance, is integral to the success of conditionality (Mateos y Lago, Takagi, and Martin, 2004: 6). This capacity includes the ability to effectively execute and maintain reforms, impacted by various structural, institutional, and political economy factors (Featherstone and Papadimitriou, 2008: 27,31; Diamond, 2013: 16). However, a lack of capacity or consensus can inhibit a country's ability to "own" a programme and fulfil its conditions (Stubbs *et al.,* 2021: 33).

Several intervening variables influence reform capacity, including political, economic, and social realities. The presence of "veto players" (Tsebelis, 1999: 592) can significantly complicate decision-making and impede consensus-building. Path-dependence theory (see **2.2.II**) suggests that historical context and institutional structures are crucial in determining reform capacity (Peters, 1996: 9; Heritier and Knill, 2001: 258).

In examining the interplay between credibility and conditionality, this thesis employs a multi-dimensional approach to assessing a country's reform capacity. Domestic impediments to reform are explored in empirical case studies (**Chapters 3** and **4**). **Chapter 2** sets the stage by presenting the theoretical and methodological underpinnings of the thesis, leading to a conceptual discussion on external dependence.

1.3 External Dependence: a double-edged sword?

The previous section examined the significance of credibility in international cooperation and its interplay with conditionality. Given Greece's longstanding foreign dependence and indebtedness, it is crucial to consider the risks associated with external dependence and indebtedness. This section delves into the debt-growth nexus, exploring the relationship between foreign indebtedness, external dependence, and economic growth while considering Greece's credibility deficit.

Debt is commonly defined as "owed by a country to non-residents" (Daud and Podivisnky, 2011: 1-2). The debt-growth nexus has been central to economic and political economy debates, primarily framed around two opposing schools of thought. The "neo-classical" or "monetarist" school asserts that debt accumulation negatively affects a country's growth prospects (Alesina and Giavazzi, 2020; Lo and Rogoff, 2015). In contrast, the "Keynesian" and "heterodox economics" tradition rejects the consensus around a "non-linear relationship" between debt and growth proposed by Reinhart and Rogoff (2010) (Bouchara, 2020). The Keynesian school posits that foreign dependence and indebtedness can benefit an economy, especially when it lacks domestic lending sources and suffers from capital shortages (Eichengreen, 2021).

Global indebtedness increased dramatically following the 2008 financial crisis and the Eurozone Crisis. Between 2007 and 2017, global debt nearly doubled from $35 trillion to $66 trillion, with public debt rising from 71% to 105% of GDP in advanced economies and 36% to 48% in emerging and developing economies (IMF, 2017; IIF, 2018).

1.3.I overviews the original sin and its implications for economic growth, summarising arguments from the neoclassical and endogenous growth models regarding the adverse effects of indebtedness on long-term economic growth. It also examines how the debate on the relationship between debt and growth – the so-called debt-growth nexus has evolved over time and the conditions under which indebtedness harms a country's economic growth. Greece's foreign indebtedness, external dependence, and chronic struggle with the original sin have undermined its credibility and shaped its response to the post-1929 and post-2008 crises. These factors serve as the conceptual and theoretical foundations for addressing SQ1.

1.3.II discusses Krugman's (1988) "debt overhang" and "debt intolerance" hypotheses and critically engages with the thresholds concerning indebtedness proposed by Reinhart et al. (2003) and Reinhart and Rogoff (2009, 2010, 2011). Although these hypotheses have faced challenges regarding their assumptions and modelling, they formed the theoretical backbone of the global response to the post-2008 crisis. The analysis contends that there is little causal connection between debt-to-GDP ratios and growth rates, particularly the "mythical" 90% threshold. Examining debt intolerance and the role of thresholds is crucial, as these assumptions shaped Greece's response, thus addressing SQ2.

1.3.III summarises the contemporary debate between "austerity" and "stimulus", which was rejuvenated by the immediate outbreak of the post-2008 crisis and stood at the forefront of the post-2008 crisis. Engaging with the so-called 'austerity debate' and the theoretical and empirical context surrounding the implementation of fiscal consolidation is essential, as it played an integral role in shaping the strategy of Greece's international creditors during the immediate response to the post-2008 crisis, helping me address **SQ3**.

1.3.I The "Original Sin," & An Overview of Traditional Economics on Indebtedness & Growth

Eichengreen *et al.* (2002: 3) posit that the composition of the external debt significantly impacts a country's debt issues, affirming it as the "sole determinant" of the *original sin* hypothesis (Eichengreen and Hausmann, 1999), which encompasses countries who are unable to borrow in their own currency. This often correlated with more volatile economic output and capital flows. Scholars have correlated the lack of monetary independence with currency mismatches, lower credit ratings, and potential currency and debt crises (Jeanne and Zettelmeyer, 2002; Eichengreen *et al.,* 2003; Flandreau and Sussman, 2004).

Foreign debt concerns what a government owes to non-residents (Daud and Podivinsky, 2011: 1-2) and has been associated with suppressing economic growth in traditional or neoclassical models (Obstfeld and Rogoff, 1996). The concept of the "Ricardian equivalence" hypothesis, graphically represented by Krugman (1988) and Sachs (1989), suggests that higher levels of borrowing increase interest rates, causing a "crowding-out effect" (Elmendorf and Mankiw, 1999), diminishing long-term economic output (Pattillo *et al.,* 2006; Reinhart *et al.,* 2012). In contrast, the Keynesian view posits that public spending can stimulate economic activity during downturns.

However, substantial debt accumulation can deter investment and savings, raise risk premia (Patillo *et al.,* 2011: 4-5), and fuel default speculation, leading to lower growth rates. Excessive debts risk entrapping countries in a low-investment, stagnant output cycle (Aguiar and Amador, 2021). Furthermore, high external debt levels can stimulate inflation expectations and capital flight, potentially inciting self-fulfilling crises (Broner *et al.,* 2014: 9-10) and inhibiting counter-cyclical policies.

The question of managing high debt levels divides economists. While some suggest that reduced public spending is the path to "fiscal health" (Alesina *et al.,* 2018: 8), others advocate for increased spending (Eichengreen *et al.,* 2021; Moury *et al.,* 2021: 157). High indebtedness constrains a country's ability to conduct counter-cyclical policies during a boom and inhibits increased public spending and tax cuts during a recessionary downturn. While Moury et al. (2021: 157) emphasise that "spending cuts are not an effective method to decrease deficit and debt during a recession," there is an ongoing debate on whether spending cuts or tax increases are the most effective ways to reduce a country's debt levels.

Excessive indebtedness is anticipated to increase output volatility and negatively impact economic growth (Panizza and Presbitero, 2014; Huang *et al.,* 2018), sparking debates around austerity, growth, and debt sustainability. Moreover, structural and institutional factors, including institutional quality, political stability, fiscal discipline, tax system effectiveness, and financial market development, significantly influence a country's ability to manage its debt and sustain growth.

The next sub-section engages with the debt-overhang and debt-intolerance hypotheses, highlighting their inherent shortcomings and flaws.

1.3.II Putting the Debt-Growth Nexus into Perspective Through the Channels Of "Debt Overhang" & "Debt Intolerance."

Building on the discussion of the *original sin*, debt and growth, this section explores the concepts of "debt overhang" and "debt intolerance", providing the theoretical scaffolding for the discourse on debt-to-GDP thresholds. Debt overhang, introduced by Krugman (1988), occurs when excessive debt stifles investment and curtails growth (Eberhardt and Presbitero, 2015: 47-48). High debt servicing costs can inhibit growth, potentially trapping countries in low-growth, high-debt scenarios (Borck *et al.,* 2015). Countries in these predicaments, described as "debt traps", often allocate significant resources towards debt servicing, limiting their capacity to initiate growth-stimulating projects (Reinhart and Trebesch, 2015).

Debt overhang theory suggests that high debt can deter investment and growth (Myers, 1977; Warner, 1977) as the returns primarily go towards existing debt obligations. This can result in inefficient resource allocation and financial contagion, exacerbating the debt issue (Krugman, 1988; Sachs, 1989). Debt overhang can, therefore, trigger a vicious cycle of austerity, slow growth, and cautious lending (Bulow and Rogoff, 1991).

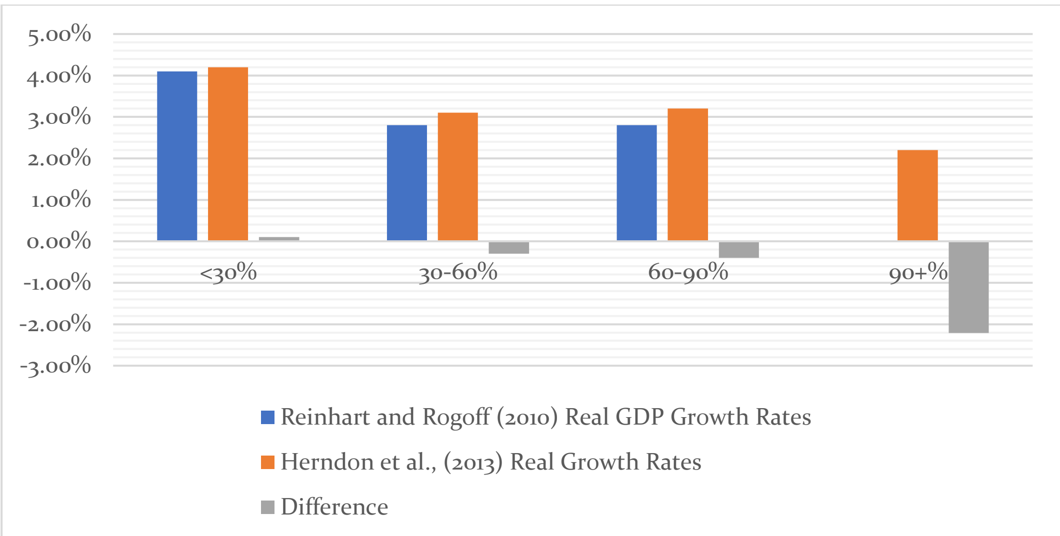
Debt Intolerance & Thresholds for External Debt: When is Debt Excessive?

Expanding on Krugman's debt overhang hypothesis, Reinhart et al. (2003) proposed the concept of "debt intolerance", a threshold indicating a country's solvency and default likelihood. They proposed a 90% debt-to-GDP ratio as the threshold beyond which growth is impaired. This intolerance is amplified in Brazil, Argentina, Venezuela, and Colombia due to factors like repayment history, inflation, and indebtedness levels (Catão and Kapur, 2004: 3,4,5; Bensoussan, 2021).

These countries are more vulnerable to macroeconomic volatility. Duggar et al. (2010: 2,6) and Giordano and Tommasino (2011: 16-18) demonstrated the link between debt episodes, banking crises, and balance-of-payments crises (Kaminsky and Reinhart, 1999; Lessig 2014: 53), which tend to exacerbate the "doom loop" between banks and sovereigns (Brunnermeier *et al.,* 2016: 3; Safa *et al.,* 2017: 4, 6-7, 29).

Reinhart and Rogoff (2010: 9) analysed time series data for 44 countries, arguing that a public debt exceeding 90% of GDP stifles economic growth. This threshold was expanded by Caner et al. (2010) and Minea and Rarent (2012), claiming that debt-to-GDP ratios below 90% may foster productive investment but was contested for its fundamental incongruities and limitations; Herndon et al. (2013: 266) identified data omissions, incorrect coding methods in Reinhart and Rogoff's (henceforth R&R) work thus, suggesting that the correlation between debt and economic growth was less significant than initially proposed. Still, Herndon *et al*. did not dismiss the notion that high debt leads to slowed growth. Average GDP growth calculations maintain that real GDP growth decreases considerably when public debt reaches 90% of GDP.

Figure 1.1: Reinhart and Rogoff versus Herndon *et al* - Real GDP Growth Rates at Different Debt-to-GDP levels (**y**-axis demonstrating GDP growth rates & x-axis demonstrating the debt-to-GDP levels)



Adapted from: Reinhart and Rogoff (R&R) (2010) Herndon *et al.,*(2013).

Figure 1.1 above compares R&R's debt thresholds with the revisions by Herndon *et al.,* emphasising the influence on post-2008 crisis policy and the complexity of prudential targets for the IMF's debt sustainability analysis, capturing the difference between the two. The latter found that average growth rates for debt-to-GDP ratio above the 90% category would be 2.2% instead of the -0.1% average presented by the earlier. At the same time, however, R&R's 90% debt-to-GDP threshold became a "tipping point" in policymaking debates (), featuring in US and European discussions with policymakers such as Paul Ryan, Timothy Geithner, and EU Commissioner Oli Rehn advocating for spending cuts and fiscal consolidation (European Commission, SPEECH/11/407, US Congress, Joint Economic Committee, 2013: 23; Pescatori *et al.,* 2014).

The IMF adopted the 90% threshold between 2010 and 2013, shaping its strategy for debtor nations and global economies. This threshold is reflected in the IMF literature and frameworks (IMF, 2009), the European Commission (2011), and the European Union (2012). However, the IMF acknowledged underestimating the contractionary implications of fiscal consolidation in 2013 (IMF, 2013), triggering a further debate on the causal relationship between debt-to-GDP ratios and economic growth. The IMF endorsed an 85% debt ratio warning for advanced capitalist economies, while the European Commission (2011) and the European Union (2012) support a 60% threshold as part of the Stability and Growth Pact (see **1.1.III**).

The discourse surrounding the debt-growth nexus underwent a considerable shift when the IMF acknowledged it had underestimated the contractionary effects of fiscal consolidation (IMF, 2013). This was reinforced by Blanchard and Leigh (2013: 14;20), who, whilst recognising the initial suitability of fiscal stimulus, cautioned against continued fiscal consolidation due to the threat of unmanageable debt and sovereign defaults. This precipitated a shift in focus towards tailored public debt management, considering specific economic and national circumstances.

This change sparked academic debate on the causal relationship between debt-to-GDP ratios and economic growth. Pescatori et al. (2014) posited the lack of a definitive threshold where debt detrimentally impacts medium-term growth, arguing that factors such as debt trajectory and changes in the size and composition of debt hold more weight than the debt-to-GDP levels. This causal relationship remains a point of contention, with divergent views on the effect of high debt-to-GDP ratios on growth (Eberhardt and Presbiterro, 2015; Égert, 2015).

In conclusion, the debate on the connection between debt-to-GDP ratios and economic growth is ongoing. The emphasis has moved towards understanding debt trajectory and composition without a universally agreed threshold. As this debate endures, the complexity of determining optimal responses to economic crises and debt accumulation is underscored by including neoclassical and post-Keynesian perspectives. Therefore, the role of debt-to-GDP ratios in economic growth remains a pivotal aspect of contemporary economic research and policy discussions. The next section engages with the "austerity versus growth" debate, acknowledging the complexity of determining the optimal response to economic crises and debt accumulation, with political, social, and economic factors at play. Therefore, the relationship between debt-to-GDP ratios and economic growth remains critical in contemporary economic research and policy discussions.

1.3.III Competing Remedies: the austerity vs growth debate.

The preceding analysis focused on the debt overhang and debt intolerance hypotheses examining the theoretical link between indebtedness and economic growth. While there is consensus on the negative correlation between debt and growth, debate persists over the threshold at which public debt begins to hamper growth (Reinhart *et al.,* 2003: 45; R&R, 2009). This sub-section delves into the relationship between fiscal consolidation (austerity) and economic growth, and a topic highlighted post-2008 Global Financial Crisis (Reinhart and Rogoff, 2009: 111).

Some scholars, such as Shahor (2018: 256), Akram (2010: 12, 2011: 57), and Barik (2012: 98), challenge the notion that external indebtedness hampers growth, suggesting that incremental debt can foster growth at low debt levels. They contend that external debt can fuel growth, aiding nations in debt-servicing and repayment. Eichengreen (2021: 10) argues that judicious borrowing can stimulate growth via capital accumulation and productivity enhancement. Conversely, Arnone and Presbitero (2010: 40) and Baum et al. (2013: 125) insist that higher debt levels impede growth.

The discourse on debt dynamics and fiscal consolidation often splits between the monetarist or neo-classical school and the Keynesian tradition. The former views reducing foreign debt through expansionary fiscal policies as "borrowing from the future" (Zhu *et al.,* 2020: 15), while the latter views fiscal expansion as a growth-stimulating mechanism. Keynes (1937: 21) famously said, "The boom, not the slump, is the right time for austerity at the Treasury."

Fiscal Consolidation & Expansionary Fiscal Contraction: Rationale & Main Propositions

Mainstream economics accepts that fiscal consolidation, such as public spending cuts and reduced social security, has short-term contractionary effects (Alesina and Ardagna, 2010: 670). Alesina and Ardagna (2010: 673) analysed 107 instances of fiscal consolidation in OECD countries from 1970 to 2007. They found that 27 (25%) led to successful deficit reduction and positive GDP growth. This research, alongside Reinhart and Rogoff's (2010: 577) work on external indebtedness, lent academic credibility to fiscal consolidation measures after the 2008 crisis.

However, Alesina and Ardagna's work faced criticism for factual errors and misleading presentation (Islam and Chowdhury, 2012: 15). Jayadev and Konczal (2010: 27) and others argued that the empirical foundation for expansionary fiscal contraction was weak and context-dependent (Guajardo *et al.,* 2010: 2). The debate over fiscal consolidation and austerity measures remains contested post-2008 crisis, with Keynesian and neoclassical perspectives offering competing solutions (Ball *et al.,* 2011: 21).

The IMF's World Economic Outlook (WEO, 2010: 94) found that a fiscal consolidation of 1% of GDP typically results in a 0.5% decline in output and a 0.3 percentage point increase in unemployment within two years. Post-2008 crisis, the IMF and G20 shifted from stimulus to fiscal consolidation (Blanchard *et al.,* 2010).

Alesina et al. (2018; 2021) contested the belief that all fiscal adjustments are contractionary, arguing for potential long-term benefits (Blanchard, 2016). The "Bocconi school" (Alesina *et al.,* 2002; 2021; Loungani and Furceri, 2016; Sinn, 2001; 2007) argues that cutting government spending and reducing deficits can boost competitiveness, generate positive economic spillovers (Alesina *et al.,* 2019; Ilzetzki *et al.,* 2013), and trigger a "crowding-out" effect (Blanchard and Leigh, 2014; Corsetti *et al.,* 2012; Guajardo *et al.,* 2014).

Keynesians counter that austerity quickly reduces GDP (the denominator of the debt-to-GDP ratio) faster than debt (the numerator), making austerity "self-defeating" (De Grauwe, 2012; 2016). Research shows fiscal consolidation has compressed income distribution, increasing poverty and inequality (Blyth, 2014; Heimberger, 2018; Perez and Matsaganis, 2018).

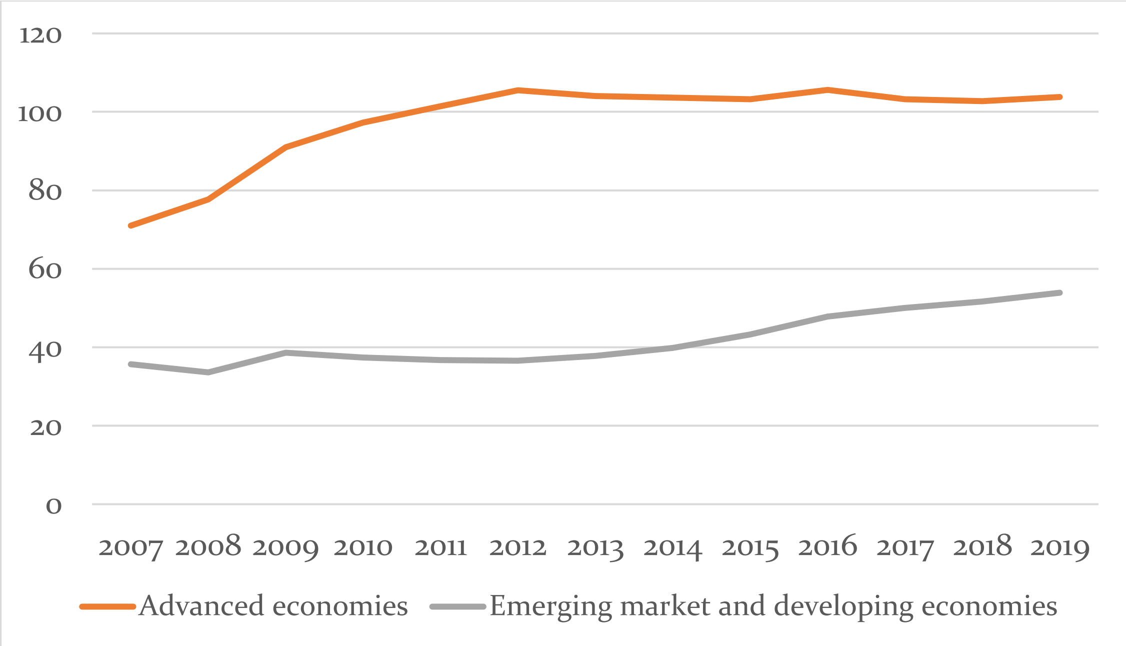
Stimulus advocates argue that austerity, based on flawed expectations and "bad economics" (Parker and Tsarouhas, 2018 [eds.]), worsened the economic downturn. Eichengreen (2015: 363) notes, "Europe was doing even worse than in the Great Depression."

Austerity measures, including public expenditure cuts, were implemented in the Eurozone to stimulate growth. Alesina et al. (2017) suggest that expenditure cuts are less harmful than tax increases. However, Greece, which underwent a 15% reduction in public expenditure between 2009 and 2013, saw a GDP contraction of 26% during the same period (IMF, 2012).

The IMF's World Economic Outlook (2012) acknowledged that harsher austerity measures led to larger GDP declines, exemplified by the Greek economy. Consequently, more stringent fiscal consolidations increased debt-to-GDP ratios (Delong and Summers, 2012; 2017; Fazzari *et al.,* 2020).

Mbaye et al. (2018: xv) highlight that global debt is now 12% of GDP higher than its 2009 peak, indicating no global deleveraging post-Global Financial Crisis. Despite this, the pre-crisis 70% debt ratio was replaced by a debt ratio above 100% of GDP in 2010, unseen since World War II. Hence, the relationship between fiscal consolidation, debt dynamics, and economic growth remains a critical area of inquiry in contemporary economics.

Figure 1.2: General Government Debt as a Percentage (%) of GDP in Advanced and emerging market economies

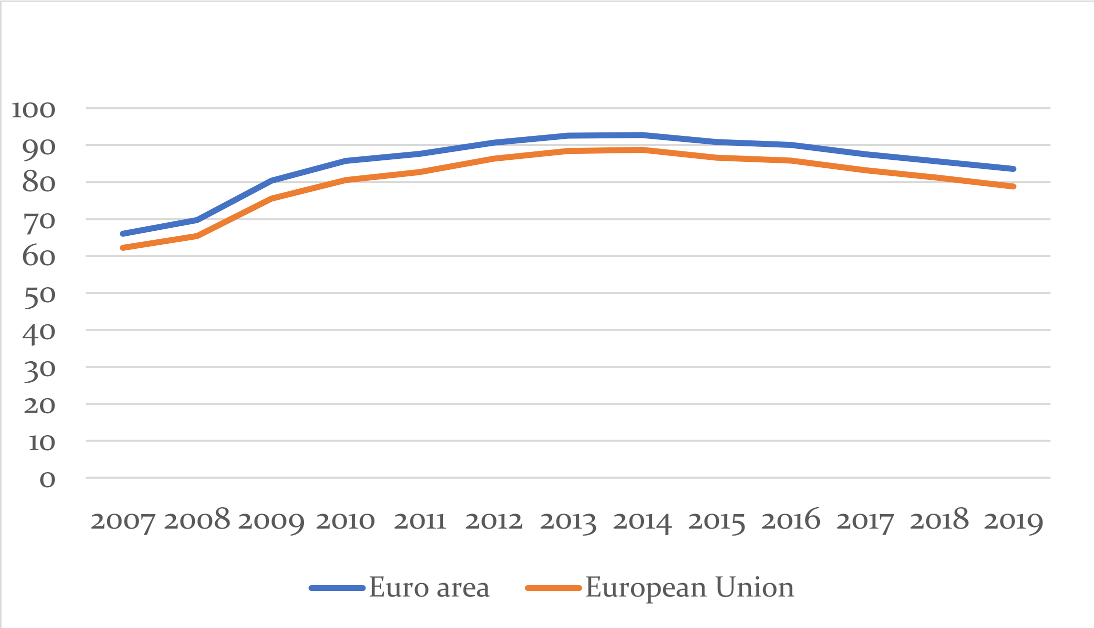


Data compiled from OECD (2022)

Figure 1.2 highlights a consistent rise in global debt-to-GDP levels across OECD countries from 2017-2019, notably in the Eurozone and the US, where debt surpasses 100% of GDP, exceeding EMU criteria and SGP conditions (see EMU conditionality in **1.1.III**). The disparity in indebtedness between advanced and emerging economies in 2021 is also visible.

Figure 1.3 below contrasts the high indebtedness of Eurozone countries with EU members. Eurozone nations adopted austerity measures post-2008 to reduce public debt levels, inadvertently leading to economic contraction, reduced tax revenues, and difficulty in servicing existing debts. Consequently, public debt levels rose. Meanwhile, the average debt-to-GDP ratio within the EU remained within the 60% threshold of the SGP between 2008-2019, illustrating the potential shortcomings of austerity measures and the policy flexibility of non-Eurozone countries.

Figure 1.3: General government gross debt (as a percentage % of GDP) in the European Union and the Eurozone (2007-2019)



Adapted from: Eurostat (2022).

Notwithstanding their contradictory propositions, both approaches – austerity and stimulus – aim to bring down indebtedness and restore economic growth but fundamentally differ in how they fathom this can be achieved. Austerity measures aim to curtail consumption and wages (broadly known as "internal devaluation") to eliminate the medium-term default risk. Therefore, such measures are expected to restore competitiveness and growth. Conversely, *stimulus* prioritises increasing public deficits, sustaining aggregate demand, and reinvigorating an economy's aggregate output and employment.

Both austerity and stimulus strategies aim to reduce indebtedness and stimulate growth, albeit through different mechanisms. Austerity measures aim to eliminate medium-term default risk by curbing consumption and wages ("internal devaluation"), hoping to restore competitiveness and growth. Conversely, Stimulus aims to boost public deficits and demand, revitalising output and employment.

Agreeing with Panizza and Presbitero (2013: 613), the relationship between debt and growth varies across countries and periods. Monastiriotis (2014: 73-76) and Müller (2014) argue that austerity can be effective, provided that the policy design, implementation, and credibility are sound. However, they caution that austerity can have destructive effects in nations with poor government quality and long-standing structural and institutional weaknesses.

My analysis of the burgeoning debate on indebtedness, and its impact on growth, combined with my synthesis of the so-called "austerity vs growth" debate, is crucial because it will help us address the fundamental research question guiding this structured single-country historical comparative case study:

- ***Which factors shaped Greece's immediate response to the post–1929 and post–2008 crises?***

To answer this central RQ, I also focus my attention on three supplementary sub-questions (SQ):

- **SQ1** *What were the core features of the Greek political system in the period preceding the outbreak of the crises in the 1930s and 2010s?*
- **SQ2** *How did the economic crises of the 1930s and the 2010s manifest themselves domestically and internationally?*
- **SQ3** *How did Greece's international creditors respond to the country's economic predicament, and what was their underlying recipe to mitigate the effects of the crisis?*

1.4 Conclusion

This chapter presented three interlinked concepts - conditionality, credibility and external dependence- foundational in international cooperation, lending and economic policy-making. These elements serve as building blocks for this thesis' empirical analysis and represent the *independent variable* of the investigation.

Section 1 engaged with conditionality, an essential in international cooperation and lending. While engaging with the evolution of conditionality from the gunboat diplomacy and fiscal house arrest bodies of the 19th century to the modern conditionality regimes instituted by the EU and the IMF, I highlighted that the enforcement mechanisms of conditionality typically employ a 'carrot and stick' approach, with success contingent on the benefits outweighing the political and economic costs for the recipient. In contrast, when high political and economic costs exist, conditionality is expected to achieve futile results. While discussing these conditionality regimes (i.e., the EU, the IMF and EMU) is important because it examines their strengths and weaknesses and their enforcement and compliance mechanisms adopted.

Section 2 explored the importance of credibility in international sovereign lending and monetary policy. Countries build credibility by “tying their hands” (Alesina and Tabellini, 1990) to external anchors, implementing reforms and “matching their words with deeds”, thus influencing risk assessment and borrowing costs and the ability to secure financial assistance. Credibility extends beyond a country's past economic performance and reform implementation record; it also depends on a nation’s commitment to addressing underlying issues, emphasising the importance of ownership and reform capacity (see **2.2.V**; **3.3.V**; **4.3.V**; **5.3.V**).

While engaging with the three scenarios outlined by Moury et al. (2021: 19) illustrating the significance of credibility in the negotiation process, I highlight the two facets of the “credibility problem” – time inconsistency and political instability, arguing that the severity of the conditions imposed often correlates with the recipient country's credibility and the level of its external dependence. This thesis argues that the importance of consensus and agreement on diagnosing a nation's economic problems and potential remedies is paramount, as well as the political will to establish coalitions and engage with stakeholders in the domestic setting.

Section 3 analyses the role of external dependence, considering the original sin and the debt overhang and debt intolerance hypotheses. Countries heavily reliant on foreign capital and essential goods face significant economic consequences, with scholars and policymakers debating at which point (i.e., in debt-to-GDP terms) where debt stifles economic growth - also described as the crowding-out effect. This discussion engages with Reinhart and Rogoff’s findings on the 60% debt-to-GDP threshold, underscoring the numerous weaknesses and errors that Herndon et al. (2013) pointed out. The discussion engaged with the debate surrounding fiscal consolidation or austerity (i.e., spending cuts, tax increases, or a combination of both) to reduce debts and foster growth. I illustrate that in the 2010s, the Eurozone countries saw their debt levels significantly increase, surpassing economies in the Global North (i.e., the US) and emerging market economies. This discussion contextualises the response devised to mitigate the post-2008 crisis, which hinged on adopting the austerity paradigm and revitalised the debate between austerity and growth.

The interaction between conditionality, credibility, and external dependence reveals the complexities of managing economic crises. Countries with higher credibility face less stringent conditionality and lower external dependence impact. Conversely, countries with lower credibility and high external dependence often face more severe conditions.

This thesis emphasises adopting the methodological approach of Comparative Historical Analysis (CHA) and the Historical Institutionalism (HI) theoretical framework providing a deeper historical perspective on financial crises. By using this research design, the thesis aims to create a historically grounded, empirically based, and theoretically informed narrative.

The post-1929 Great Depression and the post-2008 Global Financial Crisis have often been juxtaposed by various scholars, economists, and policymakers, underlining common economic shock features, the unique character of each crisis, and the different socio-political and economic contexts (Kindleberger, 1978; Minsky, 1982; R&R, 2009; 2011; Tooze, 2015; Psalidopoulos, 2018). A CHA harmonises these divergent views.

In addition to conditionality, credibility, and external dependence, the thesis also considers the country's socio-political and economic legacies, shaped by historical path-dependence (see 2.1.II), which play a pivotal role as intervening variables in influencing conditionality, credibility, and external dependence dynamics (see 2.2 and 2.3.II).

The choice of the 1930s and the 2010s as focal points enables this thesis to unravel the complex interplay of conditionality, credibility, and external dependence in a nuanced and context-specific manner. The comparison of the Great Depression and the Global Financial Crisis is justified for several reasons: their severity, duration, and far-reaching impact on the global economy; the commonalities in origins, consequences, and policy responses; and the endurance of certain Greek-specific features shaping responses to major economic crises (Bernanke, 2013: 1; Tirole, 2011; Eichengreen and O'Rourke, 2009; Malliaris, 2016: 28; Tatluyer, 2017: 5).

In conclusion, a CHA of the Great Depression and the Global Financial Crisis provides insights into continuity and change patterns in the Greek political economy, facilitating a broader understanding of international economic crises' impact on the Greek economy over time. The 1930s and 2010s have been selected for comparison due to their unparalleled global disruption, their Greek-specific features, and the availability of reliable data. This comparison enables the thesis to reconcile the motivational "why" with the structural "how" of the political economy, emphasising the domestic setting's historicity.

The forthcoming chapter will further elucidate this PhD thesis's theoretical framework, research design, and methodological underpinning. It will subsequently focus on the Greek-specific, path-dependent features, followed by the operationalisation of the HI approach. This rigorous approach to economic history, combined with a comparative analysis of two crucial periods, aims to contribute significantly to understanding financial crises, their causes, consequences, and policy responses,

Chapter 2 -

Theoretical Framework, Theme-Setter, Research Design, Methodology & Operationalisation

Introduction

The previous chapter synthesised the three key conceptual optics – *conditionality*, *credibility,* and external *dependence* – guiding the empirical analysis of the two crises – the Great Depression of the 1930s and the Global Financial Crisis (GFC) of the 2010s (see **Chapters 3** and **4**). It also engaged with the *conditionalities* sponsored by the IMF (see **1.1.II**) and the EU (see **1.1.I; 1.1.III**), highlighting that these international institutions use a combination of constitutive and constraining techniques, commonly known as *sticks and carrots,* to enforce their rules.

This chapter crystallises the theoretical framework which will be adopted to address this thesis' fundamental research question (RQ) and sub-questions (SQ), which are the following:

RQ: Which factors shaped Greece's immediate response to the post–1929 and post–2008 economic crises?

- **SQ1** *What were the core features of the Greek political system in the period preceding the outbreak of the crises in the 1930s and 2010s?*
- **SQ2** *How did the economic crises of the 1930s and the 2010s manifest themselves domestically and internationally?*
- **SQ3** *How did Greece's international creditors respond to the country's economic predicament, and what was their underlying recipe to mitigate the effects of the crisis?*

This chapter consists of three parts. **2.1** engages in a conceptual discussion on *institutions* and why they exist and endure and identifies the core features of this thesis's theoretical anchor – the Historical Institutionalist framework (HI). In addition to examining HI's underlying propositions on *continuity* and *change*, I rekindle the key tenets of HI, path-dependence and critical junctures, which will form that theoretical backdrop for my empirical analysis of the two case studies – the Great Depression of the 1930s and the Eurozone Crisis of the 2010s. I stress that the HI approach enables a more analytical examination of the direction of change and offers a toolkit for comprehending the internal dynamics of political systems and institutions. Furthermore, HI facilitates the identification of cleavages underlying these structures and the tracing of historical legacies in decision-making. The discussion on path-dependence as a mechanism relating to Greece's structural and institutional features is crucial, as it contextualises the historical nature of the Greek setting.

The discussion on path-dependence is linked with the historicity of the Greek-specific setting, which is undertaken in the subsequent section. I concur with Campbell (2004: 76,87), who argues that path-dependence constrains actors and enables them. Therefore, once established, mobilisation patterns, the institutional "rules of the game," and citizens' ways of thinking about the political and economic world generate self-reinforcing dynamics (Matthijs, 2008: 27; Culpepper, 2016: 460). The HI scholarship not only explains the rarity of institutional transformation but also allows for identifying instances when profound change occurs. This theoretical assessment establishes the foundation for the empirical analysis presented in **Chapters 3** and **4** and is further complemented by a comparative examination of the two crises in **Chapter 5.**

2.2 establishes a connection between the theoretical framework and the single-country case study under investigation, specifically focusing on the Greek context. The discussion delves into the factors responsible for the "institutional mess" (Tsebelis, 1995: 289-326), characterising the Greek-specific context and briefly exploring how these features have hindered the implementation of reforms. The section identifies five enduring features characterising modern Greek Political

Economy, referred to as *path-dependent pathogens*. These pathogens are derived from the existing comparative and country-specific literature. This section captures the manifestation and evolution of these deeply entrenched features over time, immersing theoretical and empirical perspectives. It argues that the combination of these path dependencies can inhibit change due to the exceptional constraints and "veto points," resulting in deeply entrenched governance problems that generate further constraints. In addition to examining the relevance and applicability of the path-dependent pathogens in the period leading up to the post-2008 crisis, it also engages with how they hampered the country's credibility abroad while also accentuating Greece's external dependence and hindering the implementation of externally prescribed reforms, also known as reform capacity. These path-dependent pathogens will serve as the foundation for this doctoral thesis' contribution to the existing literature. My empirical analysis will focus on Greece's experiences during the Great Depression of the 1930s and the post-2008 Eurozone crisis (see **3.3** and **4.3**). After identifying why Greece is an interesting case from a theoretical perspective, it touches on what we can learn about HI from Greece.

2.3 delves into the research design and methodological framework adopted for addressing the research question and sub-questions guiding this PhD thesis. By employing the methodological approach of Comparative Historical Analysis (CHA) in conjunction with the theoretical framework of HI and its key tenet – path-dependence theory – this section aims to provide a systematic and rigorous guide for scholars embarking on research projects that seek to identify path dependencies or path-dependent pathogens across countries, with a particular emphasis on the Greek context. In addition to operationalising the HI approach, this section presents clear empirical guidelines for identifying structural and institutional features or path dependencies, delineating the indicators by which one can recognise deep-seated change, and offering a clear framework for identifying and understanding the role of crises as processes of historical transformation.

The next section examines the role of institutions and engages with their core characteristics.

2.1 The Study of Institutions in Theoretical Context and the Historical Institutionalist Approach

This section is comprised of three sub-sections. **2.1.I** engages in a conceptual discussion on *institutions* and their role in shaping the social, political, and economic landscape. Institutions are broadly defined as formal or informal rules, procedures and norms that guide human interactions and decision-making processes (North, 1990; Hall and Taylor, 1996; Baumgartner and Jones, 2002). Moreover, it engages with the crucial distinction between formal institutions, which encompass written rules and contracts, and informal institutions, comprising unwritten codes of conduct and norms of behaviour. I stress the importance of examining both types simultaneously, as they often reinforce each other and play a pivotal role in structuring and constraining actors' decision-making abilities.

2.1.II delves into the core propositions of Historical Institutionalism (HI), a prominent approach within the broader field of comparative politics and political economy. HI emphasises the significance of the historical context and institutional legacies in shaping political and economic trajectories. By focusing on how past decisions and institutional arrangements influence contemporary politics, HI offers valuable insights into understanding the evolution and persistence of political systems. I spell out the core features and analytical properties characterising the HI framework and engage with the temporal concepts informing its analytical toolbox, such as *path-dependence* and *critical junctures*. The theoretical discussion on HI provides valuable insights into understanding institutional change and the resilience of some features.

The discussion on HI is important for several reasons. *Firstly,* HI suggests that institutional change does not occur linearly or as a rationally evolving mechanistic plot (Koppa, 2022: 15-16). Instead, institutional transformation is perceived as a complex and laborious process. The HI toolbox allows us to examine the direction of change more analytically, comprehending the internal dynamics of political systems and institutions. Specifically, *path-dependence* theory emphasises the importance of historical decisions and events in shaping the trajectory of institutions and determining certain outcomes. Path-dependence helps explain the resilience of some domestic features over time and the role of "veto players" (Tsebelis, 2002: 87) who resist change (see **1.2.III**; **2.2.V**). It highlights that institutional arrangements are by-products of decisions made in the past, making it difficult to alter course without considerable effort or in the absence of a significant event, such as a crisis, which is also described as a critical juncture. *Secondly*, while explaining the rarity of institutional transformation, HI also allows for identifying instances when *deep-seated change* occurs. HI is an effective framework for assessing the impacts of exogenous shocks, such as ruptures or crises. While highlighting the advantages of HI as a theoretical framework, I also address the critique directed towards HI. I conclude this section by fleshing out why the case of Greece is intriguing from a theoretical perspective.

First, the country's inherent gap between the country's potential and actual performance has spurred debate over whether Greece's developmental issues stem from domestic or foreign factors. Second, Greece's enduring endogeneities, such as its Ottoman and Balkan legacies, shape its governance and reform implementation capacities. Third, Greece's political economy and history of external dependence and sovereign default offer valuable insights into debt politics and foreign intervention. Fourth, the contrasting periods of impressive post-war growth and severe economic contraction in recent times provide an opportunity to examine the drivers of growth and decline and the interplay between domestic and international factors. Moreover, it explores what we can learn about HI from the Greek case.

While critics of HI have raised concerns regarding the framework's deterministic nature, its potential neglect of agency, and the difficulty in identifying causal mechanisms, HI remains a valuable framework for understanding institutional dynamics and change. Acknowledging that the Greek case is characterised by its complex historical backdrop, institutional arrangements, and the interplay between formal and informal institutions, I argue that it offers an opportunity to engage with and refine the HI framework. Moreover, I highlight how the Greek case can contribute to our understanding of HI and its explanatory power within comparative politics. This section establishes the groundwork for operationalising the HI approach, undertaken in **2.3.**

2.1.I What are Institutions, and Why Do They Matter?

Institutions, as defined by North (1990: 3), are the "rules of the game in a society", shaping human interactions by constraining actors' behaviour and outlining permissible and prohibited actions. Institutions can be categorised into two general patterns: a) 'constraining, prescriptive' institutions; and b) 'constituting proscriptive' institutions (Clemens and Cook, 1999: 446). The key difference between the two lies in their approach to compliance (see **1.1**), either by prescribing acceptable conduct or emphasising the prohibition of undesired behaviours (Berman 1998: 20-21).

Hall and Taylor (1996: 938) frame institutions as formal or informal procedures, routines, norms, and conventions embedded in the organisational structure of a polity or political economy. Distinctions between formal and informal institutions are crucial for various reasons. North (1990: 6, 47) highlights that formal institutions comprise political and judicial rules, economic rules, and contracts, while informal institutions consist of codes of conduct and norms of behaviour. Informal institutions, such as corruption, political ideology, patronage, rent-seeking, and nepotism, fundamentally shape political behaviour (Hillman, 2014: 45).

Informal institutions can serve as channels to negotiate reforms vis-à-vis their formal counterparts (Streeck and Thelen, 2005: 15, 22; Hall and Thelen, 2009: 9). HI scholars emphasise the importance of informal institutions in shaping political processes and affecting economic performance (North, 1990: 4; Pepinsky, 2014: 161). Institutions play a crucial role in promoting compliance with established rules, offering rewards and penalties as incentives.

Institutions persist due to various factors (Skocpol, 1995: 105), often continuing to shape political and socio-economic affairs long after their initial conditions have ceased to be relevant (Theonig, 2011: 188). Hall (1993: 277) underscores that "one of the principal factors affecting policy at time-1 is a policy at time-0", hence, the inherent tension between stability and change within the policy process. Institutions may be established, rearranged, and evolve, and although they seldom disappear, they may cease to exist. When examining institutions, it is essential to adopt a historical perspective and analyse their evolution over extended time horizons (see **2.2**). Institutions are the by-products of a confluence of circumstances within a specific historical context and tend to persist beyond their original purpose (Mahoney *et al.,* 2016: 75). This idea is encapsulated in the seminal frameworks of path-dependence, institutional stickiness, and critical junctures, which warrant further analytical scrutiny (see **2.1.III**).

The next sub-section engages with the Historical Institutionalist (HI) theoretical framework, summarising its core propositions concerning continuity and change and its key tenets of *path-dependence* and *critical junctures*.

2.1.II Historical Institutionalism (HI) and its Core Propositions

The previous sub-section engaged with the concept of institutions, which is central to historical institutionalism (HI) and plays a significant role in understanding the persistence of certain characteristics over time. This persistence is connected to HI's theoretical framework, which focuses on temporal perspectives, path-dependence, and critical junctures. Distinguished formal from their informal counterparts is crucial, as formal institutions' conditionalities often attempt to bypass the impact of informal institutions. However, informal institutions tend to endure and, as an intervening variable, may impede the implementation of departures from the status quo. Examining formal and informal institutions is essential in this dissertation, particularly in the context of Greece. This thesis argues that ignoring the role and significance of informal institutions in the Greek political economy would be equivalent to neglecting the political dynamics.

Section 2.2 illustrates how informal institutions have influenced their formal counterparts and vice versa and how externally imposed conditionalities have sought to evade or modify them. This section delves into the core propositions of the theoretical framework this thesis adopts for its empirical analysis. Over the past quarter-century, HI has emerged as a preeminent framework for studying continuity and change within political science. Importantly, HI fluidly rekindles historical and political perspectives into its theoretical underpinnings (Pierson and Skocpol, 2002; Streeck and Thelen, 2005; Campbell, 2012). However, it has not been without its critics (see **2.1.III**).

Sanders (2008: 40) posits that HI primarily concentrates on establishing, maintaining, and adapting institutions that govern political and economic relations. Pierson and Skocpol (2002: 696-699) emphasise that HI typically investigates the long-term viability and broader consequences of institutions, exploring how interests, positions, and ideas generate preferences, as well as examining how and why these preferences evolve over time (Hall and Taylor, 1996: 942). The HI scholarship avoids perceiving history as a simplistic sequence of independent events, instead focusing on the interactive effects that determine the interdependence of multiple causal factors (Clemens and Cook, 1999: 445; Steinmo, 2008: 166). Pierson and Thelen (1999: 398) argue that institutional development and outcomes must be examined via a backward induction, examining the deeply entrenched historical processes without succumbing to the temptation of concentrating solely on isolated moments in time (Rhodes, 2016: 421). Consequently, properly understanding any institutional or policy outcome necessitates thoroughly examining its broader institutional and historical context. The HI framework connects the motivational "why" with the structural "how" questions in political economy by capturing slow-moving processes and explicitly focusing on the influence of past institutional developments on contemporary ones (Capoccia, 2016: 90; Mahoney, 2000: 536; Pierson, 2004: 44).

Two essential and influential concepts within HI are path-dependence and critical junctures, which illuminate the issue of continuity within the context of a dynamic process.

a. *Path-dependence*

Path-dependence is the quintessential mechanism underpinning institutional stability over time for HI scholars such as North (1990), Campbell (2004), and

Pierson (2005). As actors invest in a particular institutional "path" or "blueprint for action", self-reinforcing dynamics emerge, constraining opportunities for radical change (North, 1995; Pierson, 1993; Thelen, 1999). This perspective highlights the enduring influence of past events on institutional trajectories and development, with earlier events carrying greater significance in shaping eventual outcomes (Brady and Collier, 2010: 343). Increasing returns, a central concept within path-dependence, posits that the benefits of adopting a specific institutional path grow over time, creating a self-reinforcing dynamic (Pierson, 2000a: 251).

Acemoglu et al. (2012: 106) employ path-dependence as a central tenet in their influential work, empirically examining how institutions shape economic development. This research has spurred a burgeoning literature on the relationship between institutions and economic growth and the factors responsible for the different trajectories (Rodrik, 2007; Dollar and Kraay, 2016; Sari, 2021: 20). HI emphasises the role of temporality and the role of past events and choices in shaping institutions and policymaking (Tilly, 1984: 14). Campbell (2004: 65) defines path-dependence as “a process whereby contingent events or decisions result in the establishment of institutions that persist over long periods and constrain the range of actors’ future options.” Pierson (2004: 10) highlights that “small events early on may have a big impact” while “large events at a later stage may be less consequential”. Path-dependence suggests that institutional change is often evolutionary rather than revolutionary (Matthijs, 2008: 27; Culpepper, 2016: 460), and institutions may become increasingly resistant to change (Iversen *et al.,* 2007).

b. Critical Junctures

In the HI scholarship, critical junctures serve as initial markers of path-dependent processes, triggering such processes and explaining divergent political and economic outcomes across countries (Collier and Collier, 1991: 27, 29; 2002: 1-25). These junctures represent "period[s] of significant change" with distinct manifestations and legacies that persist beyond their originating circumstances.

Critical junctures provide opportunities for profound institutional change when conventional wisdom does not apply, and power vacuums emerge (Pierson and

Skocpol, 2002: 665; Pierson, 2004: 135). Identifying a critical juncture can take time, as changes may require years to manifest (Mahoney and Rueschemeyer, 2003: 12). Scholars should use the concept cautiously and with careful elaboration (Mahoney and Thelen, 2010: 10). Levi's (1997: 28) "branching tree" metaphor illustrates that path-dependent decisions persist. In contrast, critical junctures involve choosing among various possible directions.

Not all potential change moments result in critical junctures (see **2.3**). Capoccia and Kelemen (2007: 352) introduce "near-miss critical junctures" when opportunities to achieve change remain unrealised due to factors like institutional resistance, political opposition, or lack of consensus. Recognising near-miss critical junctures is essential for understanding the factors constraining or enabling transformative institutional change.

Four implications arise from this understanding of critical junctures for the CHA of Greece's two crises: the Great Depression of the 1930s and the Eurozone Crisis of the 2010s. First, critical junctures have a relatively brief duration compared to the path-dependent processes they generate. Second, longer critical junctures inhibit actors from reverting to the *status quo ante*. Third, agency plays a vital role during critical junctures, distinguishing them from historical contexts before and after their occurrence. Fourth, critical junctures highlight a wide range of potential outcomes, emphasising specific outcomes' distinct and rare character.

HI & Its Critics

Historical Institutionalism (HI) offers valuable insights into understanding continuity and change yet faces criticism for being "too deterministic", "teleological", and "misleading" (Béland, 2007: 693). Firstly, critics argue that HI insufficiently theorises endogenous change, overemphasising exogenous shocks as primary catalysts for change and reform (Kay, 2005: 545; Peter *et al.,* 2005: 1269). Concerns have been raised about path-dependence underestimating agency and intentional change (Sewell, 1996: 262; Grief and Laitin, 2004: 647) and HI's limitations in accounting for institutional dynamics (Streeck and Thelen, 2005: 9; Fioretos, 2011: 368; Carstensen and Schmidt, 2016: 325).

Secondly, Drezner (2010: 3) questions HI's ability to explain why and when critical junctures occur, as well as the factors shaping future institutional arrangements, citing "certainty of hindsight bias" (Lebow, 2000: 559). HI has been criticised for its status quo bias (Benz and Broschek, 2013: 96) and inadequacy in explaining change (Peters, 2005: 85).

Thirdly, critics argue that HI's emphasis on path-dependence and critical junctures limits its capacity to explain changes without a rare exogenous shock. The HI scholarship "remains at a macro level of abstraction in which change can only be explained mechanistically" (Schmidt, 2011: 5), resulting in a growing mismatch between policy and a changing environment. Critics assert that HI's definition of institutions is inaccurate and that it is "incapable of coping with change" (Peters *et al.,* 2005: 1275).

In response, theories of gradual change posit that entrepreneurial agents routinely challenge political institutions due to distributive effects, leading HI scholarship to shift towards actor-driven, deliberate change (Thelen, 2003: 224; Mahoney and Thelen, 2010: 7). This thesis concurs with Steinmo (2008: 173), who contends that actors are not "hostages of their institutions". Path-dependence should not be viewed as a "story of inevitability" (North, 1990: 98-99) but as a framework for understanding institutional persistence and challenges in effecting change, acknowledging the roles of both exogenous and endogenous factors.

Why is the case of Greece interesting from a Theoretical Perspective?

While path-dependency can be arguably observed and applied to all countries, and the reasons why Historical Institutionalism is interesting for Greece, is also true for many countries, there are several reasons why the case of Greece offers a rich theoretical ground.

First, Greece presents an interesting case from a theoretical perspective because there is a virtual consensus in the country-specific and comparative works of literature. When examining Greek history from a comprehensive perspective, there is an inherent gap between the country's potential and actual performance. Moreover, there are contrasting perspectives on whether Greece's developmental issues stem from domestic or foreign actors). While scholars have highlighted Greece's position as a "semi-peripheral country" (Wallerstein, 1976: 461-483; 2011), emphasising the country's "parasitic relationship" with foreign capital and governance issues.

Secondly, Greece is theoretically intriguing due to its unique history, and the legacies of Ottoman rule and Balkan traits render the country a particularly intriguing case study for analysis (Breakwell and Lyons, 1996: 309; Lewis, 2011; Thomas, 2014: 178). Moreover, Greece's idiosyncratic features defy comparative political economy approaches such as the archetypes of Liberal Market Economies (LMEs) or Coordinated Market Economies (CMEs) (Hall and Soskice, 2001: 21). This distinction from established categories can also be observed in the Greek public administration (PA), which displays an amalgamation of Weberian, non-Weberian, and anti-Weberian elements (Knill, 2001; Spanou, 2003; Ongaro, 2009).

Thirdly, Greece's political economy and economic history offer a valuable case study to investigate the intricate dynamics of debt politics, external intervention, and sovereign default (Reinhart and Trebesch, 2015: 2,17; Dertilis, 2016; Psalidopoulos, 2019). The country's experiences with financial crises and foreign intervention provide insights into the pitfalls of excessive external dependence and the effectiveness and limitations of externally induced adjustment.

Fourth, Greece's distinct economic trajectory presents an opportunity to study the drivers of growth and decline (Bekiaris and Daskalopoulou, 2019). In the post-war period (1951-1973)– which is known in Greek historiography as the "Greek miracle" (Freris, 1986: 208)– Greece experienced an impressive economic boom, recording an average growth rate of 7% - the highest economic performance in Europe and internationally after Japan. In stark contrast, in the 2010s, the Greek experience tells a different story. In addition to being the most prolonged contraction in the Eurozone, and the world economy, during the post-2008 period, Greece's experience marked one if not the most severe economic contractions in modern history, surpassing the US's experience during the post-1929 Great Depression. The stark contrast between the post-war period and the 2010s raises questions about the underlying factors contributing to Greece's impressive post-war growth and the vulnerabilities and structural issues that led to the country's dramatic collapse, offering valuable theoretical insights into economic development, institutional dynamics, and the interplay between domestic and international factors.

What can we learn about HI from Greece?

Acknowledging the country's complex history, with colonisation, occupation and authoritarian rule, the case of Greece can uncover important insights and lessons for HI and path-dependency.

First, Greece presents the HI scholar with the opportunity to establish a more theoretically grounded linkage between the country's perennial features, such as its external dependence coupled with structural and institutional factors characterising the domestic setting, such as the cultural dualism, a patronage-led political system, its large public-sector, ineffective public administrative system, and weak reform capacity, make the country more vulnerable to economic shocks. This approach can help identify how path-dependence can inhibit change due to the exceptional constraints and "veto points" characterising the Greek setting, including the importance of studying external factors that shape institutions and policies and analysing how external constraints and internal dynamics reinforce path dependencies.

Second, the Greek case emphasises path-dependency's role in shaping institutions and policy outcomes. Greece's experience with democratic transitions and regime changes (see **2.2.I**; **3.3.I**; **3.3.V**) reveals how institutions respond to external pressures and address issues related to informal practices that shape political culture and institutional development. Consequently, Greece serves as an illustrative example for extending, qualifying, and adapting path-dependence as a framework.

Third, Greece's political and economic systems provide insights into applying path-dependence theory to understand the persistence of institutions and policy frameworks. Analysing this interplay through a historical institutionalist lens helps scholars understand how path dependencies are created and reinforced in different contexts. The Greek case allows scholars to formulate novel insights into path-dependence theory, demonstrating how previous decisions shape future outcomes and how external constraints reinforce path dependencies.

Fourth, Greece underscores the need for a nuanced and comprehensive approach to investigating the "political economy of reform" while considering the complex interplay of endogenous and exogenous factors shaping a country's development path. Greece's struggles with economic and political reform highlight the challenges of institutional change and demonstrate how relationships with foreign creditors and other international actors compounded the country’s political and economic challenges. Greece sheds light on the complex interplay between political and economic crises and illustrates the strengths and limitations of externally-imposed adjustment and conditionality.

Fifth, Greece's rich institutional history and experiences with crises provide valuable lessons for HI on how institutions become deeply entrenched over time, contributing to a cycle of crisis and reform that is difficult to break. The Greek case highlights the importance of studying how informal practices shape political institutions and how institutional reforms can address these practices.

The next section concludes this section and rehashes the points I have presented.

2.1.III Conclusion

2.1.I offered a conceptual discussion on the role and importance of institutions, emphasising the value of examining institutions within the Greek context for two primary reasons. Firstly, it highlighted the persistence of certain features over time, attributable to the HI theoretical framework, further captured via its temporal optics, path-dependence, and critical junctures. Secondly, the distinction between formal and informal institutions is essential within the Greek context, as conditionalities imposed by formal institutions often attempt to circumvent the influence of informal institutions in debtor nations such as Greece.

This dissertation engages with both formal institutions (e.g., laws, legislatures, international treaties, and rules associated with loan schemes) and informal institutions, such as clientelism, rent-seeking, nepotism, corruption, and étatism, highlighting the necessity of examining them concurrently. In the Greek political economy, this thesis argues that underestimating the role and significance of informal institutions is akin to neglecting the role of politics. **Section 2.2** will further elucidate this notion, identifying enduring features characterising the Greek political economy and exploring how informal institutions have moulded their formal counterparts.

2.1.II addressed the core propositions of the HI theoretical framework regarding continuity and change and the temporal concepts informing its analytical toolbox, such as path-dependence, lock-ins, and critical junctures. HI provides an effective toolkit for comprehending the internal dynamics of political and economic systems without eschewing the historicity of the domestic setting. The discussion on path-dependence serves as the mechanism to identify various structural and institutional features contextualising the Greek-specific setting, laying the groundwork for the empirical analysis presented in **Chapters 3** and **4** and the comparative discussion in **Chapter 5**.

The analysis acknowledges the valuable insights it provides for understanding continuity and change by examining the concerns raised against HI, such as determinism, teleology, and misleading assumptions. It addresses endogenous change, agency, institutional dynamics, and path-dependence critiques, highlighting the shift in HI scholarship towards actor-driven, deliberate change. By investigating the case of Greece, this PhD thesis examines the interaction between exogenous and endogenous factors, agency, and the potential for change in seemingly rigid institutional settings, demonstrating the utility of HI for understanding the persistence of institutional practices and norms while acknowledging the possibility of change through a combination of factors.

The next section turns its attention to the Greek-specific setting.

2.2 The Enduring Features of Greek Political Economy in Historical Perspective

The previous section emphasised the importance of institutions. It established this thesis' theoretical foundations for this thesis, identifying the core principles of the Historical Institutionalist (HI) framework, including path-dependency, which asserts that past decisions and events significantly impact a country's future trajectory and development. It also underlined that deeply entrenched path-dependencies hinder departure from the status quo, making significant changes rare and dependent on a favourable convergence of factors. The section explored key concepts such as critical junctures and turning points developed by HI scholars and the distinctions within these terms.

This section aims to connect the Greek-specific context with the theoretical underpinnings of path-dependency. It focuses on five endogenous features identified in comparative and country-specific secondary literature: i) cultural dualism, adversarial politics, and political polarisation; ii) prevalence of patronage-led politics, rent-seeking, and corruption; iii) the pronounced role of the State in the economy or étatism; iv) endemic weaknesses in public administration; and v) reform incapacity. These path-dependent pathogens have been linked to Greece's dysfunctional political economy, particularly its challenging predicament in the 2010s (Lavdas, 2013).

The thesis posits that the identified pathogens entailed significant path-dependencies. It hypothesises that these structural features create barriers to change, making it difficult to deviate from established behaviour and decision-making patterns. This results in a self-reinforcing cycle where a country's historical trajectory shapes its present and future possibilities, limiting policy options and creating a path-dependent equilibrium (Pierson, 2004).

Although the path-dependent pathogens can differ among countries based on historical, social, economic, political, and institutional contexts, the identified pathogens are not exclusive to Greece. Other Southern European, Balkan, and Southeast European countries face similar challenges, including Italy, Spain, Portugal, Romania, Bulgaria, Albania, and Turkey (Ganev, 2007; Elbasani, 2013). A shared history of authoritarianism, underdevelopment, unique institutional arrangements, and diverse political cultures contribute to entrenching these path-dependent factors, limiting opportunities for meaningful reform (Lipset, 1961).

A growing body of literature acknowledges these features in the Global South. For example, Middle Eastern countries like Lebanon and Iraq exhibit patronage politics and rent-seeking (Cammett, 2014; Diwan, 2013), while North African nations like Tunisia and Morocco demonstrate state interventionism and weak reform capacity (Hibou, 2015: 25-42; Lefèvre, 2014: 110-129). Sub-Saharan African countries, such as Nigeria and Ghana, face clientelism and cultural dualism (Bratton and van de Walle, 2013: 55-73), while Asian countries, including India and Indonesia, grapple with patronage, corruption, and cultural dualism (Krishna, 2017: 80-95; Aspinall, 2018: 66-82). China displays pronounced state intervention (Naughton, 2021: 231-250), oil-rich countries like Iran and Saudi Arabia demonstrate étatism (Yazdani and Hussain, 2016: 45-60), and Latin American nations like Argentina and Venezuela face challenges related to Peronism and rent-seeking (Gibson, 2005: 339-370; Levitsky and Murillo, 2013: 4861).

This section examines Greece's political economy since the mid-19th century, highlighting the deeply ingrained features that have become increasingly relevant in the burgeoning scholarship focusing on the causes and propellants of the Greek Crisis of the 2010s (Matsaganis, 2018). The subsequent section provides a comprehensive historical overview of Greece from the late 19th century until the late 2000s (Spanou, 2020), laying the groundwork for a more in-depth investigation of the 1930s and the 2010s (Pappas, 2021). Importantly, this section does not cover recent developments (i.e., in the 2010s) examined in Chapter 4.

2.2.I 'Cultural Dualism' & Adversarial Politics

This sub-section scrutinises Diamandouros' cultural dualism hypothesis (1993: 125; 1994, and 2000), an overarching view on Greek social, political life, and governance. Despite its merits, it has faced criticism for contradictory definitions, oversimplifications, and teleological features (e.g., Tsakalotos, 2008; Mitralexis, 2017). Various scholars have also tried to build upon or expand this conceptualisation.

While acknowledging the limitations in Diamandouros' work on cultural dualism, I argue that it offers a nuanced understanding of the Greek political economy when used with a theoretical framework like HI and path-dependency (see **2.1.II**). Thus, this thesis posits that cultural dualism is a useful starting point for examining Greek politics, society, and economics and contextualising the domestic setting and its deeply entrenched historicity. Considering the deeply entrenched historicity of cultural dualism since the Greek Revolution of Independence, this thesis aims to comprehensively argue the underlying "us vs them" mentality defining Greek politics and society and how it undermines the country's capacity to address crises.

This thesis further contends that cultural dualism should be understood as a hypothesis concerning the conflict between tradition and modernity and as a more fundamental assertion of a deeply rooted confrontational culture characterising Greek politics and society. Greece's adversarial political culture is connected to frequent political polarisation and gridlock, obstructing policymakers' ability to agree on and implement effective policy responses.

This thesis contends that Greece's cultural dualism generates an adversarial political tradition (Neumann, 1956: 142) and polarisation (Sartori, 1976: 191). Diamandouros (1994: 3) maintains that this cleavage has attracted the majority's allegiance since Independence, skewing political representation and fostering an antagonistic culture impeding consensus-building (Mouzelis and Pagoulatos, 2002: 6; Spanou, 2020: 173; Vasilopoulou and Halikiopoulou, 2020: 341).

Unlike Lijphart's (1968: 207) "politics of accommodation," Greek politics is characterised by adversarial relations, especially in the government's interactions with social partners and civil society. This zero-sum game model of party competition contributes to citizens' distrust of political institutions and poor governance, as evidenced by frequent social and political unrest and military coups.

The Critics of the Cultural Dualism Thesis

Diamandouros' (1994) cultural dualism has provided valuable insight into Greece's social and political conflicts but faces several criticisms. First, critics argue that the "tradition versus modernity" schema is rigid and oversimplified (Tziovas, 1995: 347). Demertzis (1997: 118) criticises its historical determinism and limited scope, while Malouta (2015) considers it static. Instead, Demertzis proposes "inverted syncretism" to emphasise the functional relationship between heterogeneous political cultures.

Second, critics suggest that Diamandouros' schematisation reflects pro-Western, Euro-centric biases akin to modernisation theory and Orientalism (Tziovas, 2022: 23). Kokosalakis and Psimmenos (2002: 15) focus on the continuity and blending of tradition and modernity, while Marangudakis (2019) explores Greek political culture through multiple modalities.

Third, the cultural dualism concept is criticised for excluding new agents and distinct conflict versions, overemphasising backwardness and divergence, and disregarding hybrid spaces (Xenakis, 2013). Additionally, it is worth noting that packing economic liberalism and institutional reform as the modernisers' preferences is a simplification (Papadopoulos, 2007: 109). Within the modernisation group, there is still a debate about the welfare state and the best way to fund it (Featherstone, 2011: 17).

Fourth, critics advocate for a more nuanced understanding, emphasising the fusion of subcultures (Tziovas, 2001; Xenakis, 2013). Tziovas (2022: 23) adds that the pro-Western trend in Greece represents an authoritarian caricature of Western modernity.

Fifth, the cultural dualism is criticised for inadequately accounting for the power hierarchy between modernising and traditionalist cultures (Derrida, 1981: 40-42). Critics argue that neither pole enjoys a hegemonic role nor sets the agenda for a prolonged period. By presenting the underdog culture as resistant to modernisation, critics claim that Diamandouros (1994: 22-24) overlooks power relations between the two competing poles.

Adversarialism & Polarisation: Greek politics as a "zero-sum game."

This thesis contends that Greece's cultural dualism engenders a political tradition marked by adversarialism (Neumann, 1956: 142) and polarisation (Sartori, 1976: 191). Diamandouros (1994: 3) argues that this cleavage has garnered the "allegiance of the majority of the Greek population since Independence," skewing political representation and fostering an antagonistic culture that hinders consensus-building (Mouzelis and Pagoulatos, 2002: 6; Spanou, 2020: 173; Vasilopoulou and Halikiopoulou, 2020: 341).

Contrary to Lijphart's (1968: 207) "politics of accommodation," Greek politics is characterised by adversarial relations, particularly in the government's interactions with social partners and civil society. Greek politics has been described as a zero-sum game between conflicting groups, adhering to a winner-takes-all model of party competition (Alivizatos, 2020: 103; Vasilopoulou *et al.,* 2013: 400).

The adversarial tradition has contributed to citizens' distrust of political institutions and poor governance, as evidenced by frequent social and political unrest, ruptures, and military coups. Key events in modern Greek history exemplify the "tug of war" between competing subcultures, including the assassination of Ioannis Kapodistrias in 1831; rival blocs in the late 19th century centred on Charilaos Trikoupis and Theodoros Deligiannis; the National Schism between the King and Eleftherios Venizelos (1915-1936) (see **3.1.I**; **3.3.I**); the Civil War (1946-1949); divisions and backlash in the post-junta period; and the bailout referendum of June 5, 2015.

Adversarial politics and cultural dualism can constrain a country's response to economic shocks by fuelling political polarisation, gridlock, and an "us versus them" mentality, eroding public trust and inhibiting collective action (Green, 2008: 77-94; Giugni and Grasso, 2019: 346-370; Flinders, 2020: 1-20). The resulting lack of consensus hampers effective policymaking and erodes trust in government and institutions, leading to blame-shifting and undermining the need for collective action.

Greece has long experienced a horizontal political divide, with foreign intervention exacerbating adversarialism. Anti-Westernism has been a common denominator for anti-imperialism, anti-colonialism, anti-Americanism, Euroscepticism, and fear of globalisation, leading to a perceived threat to traditional values and practices (Lialioutii, 2009: 127-156; Marangudakis, 2019; Stamatopoulos, 2022).

Public opinion surveys can provide comparative evidence on Euroscepticism and anti-Western sentiment. The Pew Global Attitudes Project (2007) showed that 58% of Greeks held an unfavourable view of the United States, compared to 53% in Spain, 48% in Germany, 38% in France, and 30% in the United Kingdom. This data suggests Greece has relatively higher anti-American sentiment than other European countries. Moreover, events like NATO's bombing of Yugoslavia in 1999 and the US-led invasion of Iraq in 2003 provoked anti-Western protests in Greece (Gourgouris, 1996; Kalyvas, 1996; Kassimeris, 2000; Veremis and Koliopoulos, 2002; Kalyvas and Katsanidou, 2006).

The Eurosceptic sentiment was also evident in opposition to the European constitution, where 56% of Greeks held negative views in March 2005, citing national sovereignty and democratic deficit concerns. The longstanding dispute between Greece and the Former Yugoslav Republic of Macedonia (FYROM) over the name "Macedonia" fuelled Eurosceptic sentiment when the EU was perceived as unsupportive of Greece's position.

Adversarial politics and cultural dualism can significantly impede a country's ability to respond to economic shocks by obstructing effective policymaking, eroding public trust in government and institutions, and fostering blame-shifting. These deeply ingrained tendencies can exacerbate political polarisation and gridlock, making it challenging to achieve consensus on policy responses to crises (Green, 2008: 77-94; Giugni and Grasso, 2019: 346-370; Flinders, 2020: 1-20).

The next section focuses on the importance of clientelism and patronage in Greek politics and governance.

2.2.II Patronage Politics & 'Partitocrazia' ('Party State')

The previous section extrapolated the main features of Diamandouros' schema capturing the country's perennial cleavages encompassing the *cultural dualism.* This sub-section delves into the workings, mechanisms, and logic of clientelism and *patronage politics* and examines its historical roots in the Greek-specific setting.

Although *clientelism* is associated with the Southern European political economy (Diamandouros *et al.,* 2006: 17), Modern Greece is arguably considered a "model of patronage democracy in the European context." (Triantidis, 2016: 8). It is frequently argued that Greece's *clientelistic* system has substantially undermined the development of resilient, democratic institutions and a healthy *civil society*. Scholars have linked its clientelistic bias to the country's paradoxical modernisation (Allison and Nicolaidis [eds.], 1997; Gerschenkron, 1962; Theoharis and van Death, 2013; 2015).

Clientelism as a Policy Equilibrium: An Overview

Clientelism refers to a system wherein party-political apparatuses, or patrons, allocate resources to voters or clients in exchange for political support and loyalty (Hilgers, 2011: 568; Robinson and Verdier, 2002; Weingrod, 1968). In such a setting, governments exhibit a systemic bias in policymaking, favouring their network of clients (Calvo and Murillo, 2004; Kitschelt, 2000). Clientelism is selective and exclusionary, as it benefits some while excluding others due to limited resources (Kitschelt and Wilkinson, 2007; Triantidis and Tsagkroni, 2017: 266).

Clientelism is a strategy for political mobilisation, predominantly used to attract votes (Geddes, 1994: 95; Kitschelt, 2000: 849; Robinson and Verdier, 2003: 2). It helps political parties overcome collective action problems by mobilizing voters (Olson, 1971: 95). Clientelism may give rise to a vicious cycle of clientelism-corruption-clientelism, and in democratic systems, it can facilitate elite-level state capture by acquiring social acquiescence (Della Porta, 1997: 645; Adsera *et al.,* 2003: 450; Grzymala-Busse, 2008: 640).

Patronage Politics in Greece: An Indispensable and Time-Honoured Feature

Throughout Greek history, state-society relations have been infused with party-led patronage (Clogg, 2013: 59-60). From establishing the constitutional monarchy in 1843 to the parliamentary democracy in 1974, patron-client relationships have permeated nearly all aspects of social and economic life (Campbell, 1964; Lyrintzis, 1984: 103-104). Party cadres and clients occupied state offices and merged political networks with state bureaucracy (Pappas and Assimakopoulou, 2012: 145; Mitsopoulos and Pelagidis, 2021: 323; 2018).

Fukuyama (2015: 105) attributes clientelism in Greece to the early arrival of democracy before the formation of a modern state, which allowed the bureaucracy to cushion pressures for reform, and the resulting cynicism and tax evasion hindered government efficiency. After the restoration of democracy in 1974, the country's two main parties, PASOK and New Democracy, appointed their supporters to the state sector, infiltrating nearly all spheres of social and economic life (*Kathimerini*, 18/4/2012; Pappas, 2012: 22; Triantidis, 2016: 45).

Corruption is another aspect associated with clientelism. In the 1990s, corruption cases involving academics, doctors, judges, and other public officials emerged in the mass media. Public contracts surged in the 1990s, accounting for about 5.5% of GDP by 2000, forming a lucrative source of unofficial payments to public officials (Lyrintzis, 2005: 244, 249; Mitsopoulos and Pelagidis, 2011).

Partitocrazia in Greece: the prime agent of policy formation and implementation

Modern Greek society is marked by a path-dependent linkage between political parties and civil society, creating a stalled state or société bloquée (Featherstone, 2011: 197; Crozier, 1964; Tsirigiotis, 2018: 10). This relationship results in a 'party-state' or partitocrazia, where the state apparatus operates according to the interests of the political system (Clogg, 1987; Sotiropoulos 1996, 2001; Spourdalakis, 1998: 320; Mouzelis and Pagoulatos, 2002: 8; Lavdas, 2005).

Greek society and politics have historically functioned on a patron-client basis, with the dominance of interest groups determining clientelistic relations (Lyrintzis, 1984; Michas, 1989; Sotiropoulos, 2001; Featherstone, 2005: 223;

Triantidis and Tsagkroni, 2017: 268). Mitsopoulos and Pelagidis (2009: 408) describe Greece as "kleptocratic micro-capitalism," comparing rent-seeking groups' behaviour to Viking raids.

Clientelism generates systemic weaknesses and undermines political trust (Clogg, 1987; Michas, 1989). These patron-client relationships burden the fiscal budget, leading to chronic deficits and debt overhangs (Featherstone, 2005: 223; Triantidis and Tsagkroni, 2017: 268). Internationally, partitocrazia compounds creditors' and global markets' distrust, resulting in higher "country risk" and interest rates (Mitsopoulos and Pelagidis, 2009: 408). Due to exogenous shocks, scarce resources exacerbate turbulence and upheaval, creating an impasse where domestic actors expect increased state intervention to mitigate the crisis's effects (Featherstone, 2011: 197; Tsirigiotis, 2018: 10).

Clientelism has been a key concept in explaining political behaviour and state-society relations in Greece, with scholars arguing that it serves as "the fundamental interpretative key for explaining political behaviour" (Liakos, 2004; Katrougalos, 2013: 95). Since the collapse of the colonels' dictatorship in 1974, traditional clientelism, characterised by centralisation around local party cadres and MPs, has transformed. It has evolved into a more bureaucratic and party-led patronage system, known as "bureaucratic clientelism" (Lyrintzis, 1984; Mavrogordatos, 1997).

In the post-1974 period, high-profile corruption scandals underscored the prevalence of clientelist practices in Greece. In 1988, the Koskotas scandal involved embezzlement and fraud by Bank of Crete's former chairman, George Koskotas (*Los Angeles Times*, 17/12/1988). This was followed by a series of defence procurement scandals, such as the 2010 submarine scandal (*BBC News*, 20/05/2010), where it was revealed that 18 out of the 20 arms deals involved corruption (*Kathimerini*, 19/07/2012). The Siemens case in 2004, involving €70 million in bribes paid to Greek government officials (*The Guardian*, 24/06/2008), and the 2008 Vatopaidi Monastery land exchange deals, where the Greek state incurred significant financial losses due to inflated prices (*The New York Times*, 30/10/2008), further demonstrated the exchange of political favours for personal gain, a characteristic of post-1974 bureaucratic clientelism.

These scandals reveal a culture of corruption and lack of transparency within the Greek political-administrative system (see **2.2.IV**), highlighting the challenges of implementing reforms amid powerful interest groups and limited political will. Furthermore, such scandals fuel political polarisation and public distrust, contributing to corruption, inefficiency, and eroding public trust in government. This ultimately undermines Greece's credibility amongst European partners and international observers.

Despite the insights offered by literature on Greek clientelism, the concept has limitations as an explanatory framework for understanding modern Greek politics, political economy, and the root causes of the Greek Crisis. While clientelism has been widely used to characterise Greek politics and society, its relevance and applicability have been criticised because it is a complex and ambiguous concept.

Limitations and Weaknesses of Clientelism

First, clientelism is a term used to describe complex political phenomena that lacks a clear definition or theoretical framework (Hicken, 2011: 289-310). Focusing on clientelism can oversimplify a country's political culture and neglect other factors like historical legacies and economic structures (Çınar, 2016; 2019; Kutlay, 2018). This focus may also detract from understanding complex phenomena such as polarised partisan politics, corruption, the lack of the rule of law, and media censorship (Contiades, 2008: 39 and 59; Nevradakis, 2014; Joint Civil Society Submission to the European Commission on the 2023 Rule of Law Report, 2023).

Critics argue that clientelism's pejorative connotations can be misleading. Its association with corruption and poor economic policies overlooks that clientelistic politics can involve substituting or ignoring formal criteria and procedures in government-sponsored programmes (Robinson and Verdier, 2013: 260-291; Berenschot, 2018: 1563-1593). Furthermore, negative connotations may obscure other factors contributing to political dysfunction, such as historical legacies and economic structures (Wantchenkon, 2003: 399-422; Stewart, 2021).

Emphasising clientelism risks neglecting factors like ideology, class, and regional disparities. It may obscure the role of broader structural factors, such as economic inequality, corruption, and state capture, which can profoundly impact Greece's political system, governance, and economy (Poulantzas, 1974; Mouzelis, 1986; Spourdalakis, 2012).

Some scholars argue that the concept of clientelism is insufficiently sensitive to changing political dynamics, necessitating novel approaches. The 2000s and the economic downturn of 2008 led to increased competition among political parties for scarce resources, creating new opportunities for clientelist practices (Pappas and Assimakopoulou, 2012: 144-162). Additionally, crises such as the inter-war Depression and the Eurozone Crisis have led to the emergence of new political actors with different patterns of political exchange and patronage (Hamzeh, 2001: 167-178). This highlights the need for more nuanced frameworks for understanding clientelism in Greece (Hicken, 2011: 289-310; Golden and Nazrullaeva, 2023).

It is crucial to consider the significant changes in Greece since the Eurozone Crisis of the 2010s, which marked the "bankruptcy of the deadly combination of political voluntarism, polarised partisan politics, and social partiality in the form of clientelism, partisanship, and corruption" (Tassopoulos, 2013: 84). The outbreak of the crisis undermined traditional patronage politics and increased public scrutiny and criticism of clientelist practices (see **4.3.I; 4.3.II**). However, Pappas and Assimakopoulou (2012: 146) underline that clientelism and patronage-based politics are only one side of the coin; the other side is étatism, which the next sub-section turns its attention to.

2.2.III Étatism and Pseudo-Corporatism: A Greek variant?

The previous sub-section engaged with the working, mechanics, and logic of clientelism and the deeply entrenched tradition of clientelism, favouritism, and corruption characterising Greece. This sub-section sheds light on the idiosyncrasies and specificities characterising Modern Greek *étatism*. First, it places *étatism* in the Southern European (SE) context. Second, it demonstrates that the scholarship's existing frames have fallen short in categorising the Greek case. Third, it traces *étatism*'s historical features and evolution in Greece and delineates its consequential effects on the economy and state-society relations.

Understanding Étatism in the Southern European Context

Étatism, or dirigisme, involves significant state intervention in an economy's strategic sectors and heavy regulatory burdens on its commodity and labour markets (Levy, 2006; Schmidt, 2002; Yee, 2006). Southern European (SE) countries are labelled as "early late modernisers" (Lipset, 1961) and exhibit capitalism features described as "industrialisation without development" (Pridham and Majone, 2006: 268). The SE political economy literature underscores the region's inadequate infrastructure and culture of excessive bureaucratisation, legalism, and protectionism (Elster, 1993: 189-193; Diamandouros and Gunther, 2001).

Étatism undermines firms' productivity and competitiveness (Levy, 2006). Pre-2008 studies demonstrated that SE countries experienced higher long-term unemployment and lower productivity growth than their Northern European counterparts (ECB, 2005: 11-35; OECD, 2007: 7-31). These findings reveal the adverse impact of étatism on SE economies before the global financial crisis.

The Role of the State in the VoC Literature

Hall and Soskice (2001) omitted SE economies from their Varieties of Capitalism (VoC) model. Amable's (2003: 15, 121, 123) 'Mediterranean' classification captured the particularities associated with SE capitalism. Key elements of the Mediterranean model include SMEs, the state's excessive regulatory role, industrial relations conflicts, and employment protection prioritisation (Amable, 2003: 16).

Molina and Rhodes (2005) and Hancke et al. (2007) used the "Mixed Market Economies" (MMEs) classification to emphasise hybrid systems with lower welfare provision and higher employment protection. The complex organisational structure of public administration is another important trait of the MME model associated with the SE context (see **2.2.IV**). MMEs are also characterised by the prevalence of veto points and weaknesses in social dialogue (Featherstone and Papadimitriou, 2008; Kornelakis and Voskeritsian, 2014; Voskeritsian *et al.,* 2019; 2020).

Étatism in the Modern Greek Context

Étatism was integral to Greece's post-war model as an "inseparable extension" of the clientelist state (Pagoulatos, 2003: 199-200). The Greek Government emerged as a primary employment source, lacking economic development (OECD, 2009: 137). By the 1870s, Greece's number of civil servants was seven times larger than that of the UK (Raphael, 1994), making the Greek state the principal vehicle for generating economic financial and employment opportunities (Tsoukalas 1995: 216; 1999; IMF, 2010: 58).

Greek étatism created oligopolies, hindering efficient resource allocation. Perennial dependence on foreign capital and diaspora led to excessive external reliance (Mouzelis, 1978; 1993). The state permeated the economy, shaping socio-economic relations within a state-led framework, and featuring particularistic allocation of benefits to vested interests (*Diaplekomena*) (Petmesidou, 1996: 329). This generated a dichotomous cleavage between protected insiders and outsiders, forming the insider-outsider society (Burtless,2001: 455). Insiders with access to political power enjoyed regulatory protection, while outsiders were excluded from resources, increasing their vulnerability (Ferrera, 1996: 17-37; Katrougalos and Lazarisis, 2003: 41-43; Pagoulatos, 2020: 66).

Upon Greece's accession to the European Economic Community (EEC) in 1981, the state's economic influence expanded, despite its GDP per capita deteriorating from 90.4% of the EEC median in 1981 to 74.2% in 1990 (Alogoskoufis, 2009). State-owned monopolies and oligopolies remained under government control. After the 1974 democratic restoration, nationalisations occurred in the industrial and banking sectors (OECD, 2009: 137-139) (see **4.1.I**).

In the early 1990s, unsustainable operational costs, rampant inflation, and excessive regulatory burdens resulted in stagnant growth, faltering exports, rising public expenditure, and indebtedness by the mid-1990s (IMF, 2010: 58). Étatism degenerated into over-regulation, burdensome bureaucratisation (see **2.2.IV**), and 'red tape' (Jacobides, 2017: 637), hindering stabilisation and accession programmes

(Simitis, 1989) (see **4.1.II**). The EU's influence on Greek étatism in the 1990s and 2000s led to market liberalisation, increased competition, and adherence to the single market principles (OECD, 2009).

Consequently, state-owned monopolies and quasi-monopolies gradually lost dominance. The banking sector underwent significant privatisation and adopted EU financial regulations (Featherstone, 2005; Kazamias, 2011; Sotiropoulos and Bourikos, 2014). Despite EU influence, Greece maintained control over public utilities and infrastructure, such as PPC, OTE, OASA, OSE, DEPA, and EYDAP. The defence sector, tourism, and higher education also remained under state control, with Greece's opposition to private universities setting it apart from EU peers. Highlighting the persistence of étatism in Greece's economy, the OECD's report (2009) argued that closed, consumption-driven economy, étatism distorted the public-private dichotomy and hampered the Greek economy's productivity and firms' competitiveness (Jacobides, 2015: 23, 24).

There is a burgeoning scholarship on how PASOK and ND strategically deployed the state, allowing for patronage politics to transform into machine politics (Mavrogordatos, 1988; 1997) and structured state-society relations in a highly clientelistic manner (Tsoukalas, 1987; Matsaganis *et al.,* 2001: 44; Mavrogordatos, 2005: 34). Although state-society relations have been recognised as corporatist (Sotiropoulos, 1996: 34, 35-37), Greece never resembled the Northern European corporatist model. Indeed, Greece's 'state corporatist' top-down and centralised interest mediation system endured in the post-junta period and unfolded in a post-authoritarian and democratic setting (Featherstone and Papadimitriou, 2008, Sotiropoulos, 2018: 4).

Greece's pseudo-corporatist model

Étatism involves significant state intervention in strategic economic sectors and heavy regulatory burdens on commodity and labour markets (Levy, 2006; Schmidt, 2002; Yee, 2006). In Greece, interest mediation has been subordinated to the party-political system since 1918 (see **3.3.III**), inhibiting unions' autonomy and bargaining roles (Katsanevas, 1984; Featherstone and Papadimitriou, 2012: 34;Balampanidis, 2019: 99). Informal exchanges often superseded formal negotiations, leading to incremental change (Afonso *et al.,* 2015: 321; Siani Davies, 2017: 225). Over three decades, Greek trade unions became dependent on funds from the Labour Ministry to GSEE and ADEDY (see **2.2.IV**).

Lavdas (1997; 2005) used Schmitter's (1974; 1981) concept of disjointed corporatism to describe Greece's interest mediation system, highlighting asymmetric linkages between the state and organised interests resistant to reform. Critics argue that disjointed corporatism does not fully capture the complex nature of interest mediation in Greece, with fluid, informal interactions and a lack of institutionalisation (Kazakos, 2001; Pagoulatos, 2008). Others contend that the concept is outdated and does not consider recent developments since the 2000s (Sotiropoulos, 2004; Featherstone, 2008). Despite these criticisms, disjointed corporatism has been employed to analyse Greek interest mediation and state-society relations.

Greek civil society has historically exhibited weaknesses (Mouzelis, 1987; 2002: 238-245; Lyrintzis, 2002: 92), low participation, and few voluntary and non-governmental organisations. However, Sotiropoulos (2004) challenges this view, highlighting the strength of some voluntary associations and informal social mobilisation. Lavdas (2016: 17) asserts that Greece's corporatist tradition features sectoral corporatist enclaves, where the state controls specific industries and interest groups wield significant influence on policy and decision-making. Sotiropoulos and Huliaras (2018) adopted the rentier state theory to examine the Greek crisis's root causes, arguing that dependence on external financial flows or "rents" removed incentives for implementing necessary reforms, contributing to the post-2008 crisis.

Despite the Eurozone's negative impact on Greek society in the 2010s, Greek civil society has been strengthened in various ways, including new forms of civic engagement and social activism, as well as engagement with international actors to access resources and expertise (Huliaras, 2014) (see **4.3.III**). Étatism's structural deficiencies and consequential impact extend to public administration (PA) (see

2.2.IV). The structural and institutional deficiencies of the Greek state have severely undermined the country's governance by exacerbating the lack of trust in the politico-administrative system.

The next sub-section engages with the general problems and dysfunctionality characterising the Greek Public Administration (PA).

2.2.IV Weakness of State Administration and Reform Capacity

The previous section explored Greece's tradition of étatism, the historical characteristics and peculiarities that define the state's role in the Greek economy, and the 'state-economy' dimension. Moreover, it examined the theoretical frameworks, such as the varieties of capitalism literature, arguing that existing frameworks have inadequately categorised Greece.

This section underscores the general weaknesses characterising the 'black box' of Greece's Public Administration (PA) paradigm and analytically expounds on its negative 'spillovers'. Tracing the Greek PA system's evolutionary trajectory and emphasising its prevailing features and traits, I examine the structural and evolutionary path dependencies responsible for its underperformance, ineffectiveness, and dysfunctionality. Crucially, I outline how the enduring horizontal politicisation of the PA, combined with its broader inefficiency, weakness, and systemic flaws, has hindered the implementation of externally prescribed reforms such as the conditionalities prescribed by the country's creditors. I argue that the prevalence of inertia, the status quo ante, and institutional stickiness have encumbered the Greek State's reform capacity and implementation record.

Modern Greek Public Administration in Historical Context

The Modern Greek State was influenced by the Napoleonic tradition's centralism, hierarchy, and legalism (Crozier, 1964: 225). The Greek variant of this administrative model emphasised law, formality, and uniformity but never acquired the French prototype's efficiency and prestige (Spanou, 2008: 152; Ongaro, 2009). Greek PA has experienced significant changes over the past two centuries, particularly in the last four decades; however, its traditional hierarchical and centralised organisational patterns and pathologies have persisted (EBRD, 2019; Ladi, 2020: 443).

The Greek PA system has been described as a "colossus with feet of clay" (Sotiropoulos, 1993), marked by inefficiency and ineffectiveness. Since Greece's economy was underdeveloped for much of the 19th and 20th centuries, the civil service became the principal employer-state and the agricultural sector (Clogg, 1987: 4; Ladi, 2020: 172). Political parties in power exploited the country's bureaucracy to obtain a competitive advantage against their opponents, turning the PA into a "greenhouse of clientelism" (INT2) and prioritising particular interests over the broader public good when recruiting civil servants (Couloumbis *et al.,* 2003: 156).

A defining feature of the Greek PA has been civil servants' political and constitutional protection (Featherstone, Papadimitriou, 2015: 21). This protection was enshrined in the 1951 Civil Service Code and established formal rules governing the legal status of civil servants and a standardised competitive examination system for entry into the service (Aspridis, 2011; Karkatsoulis and Stefopoulou, 2017; Panezi, 2017).

In the post-1974 period, reforms aimed to democratise the PA and align it with the European Community's standards (Pesmazoglu, 1976: 141-151; Kalaitzidis and Zahariadis, 2015: 71-84; Chatzistavrou, 2022: 749–769). However, PASOK's rise to power in the 1980s led to an increase in the size of the PA and its politicisation (Triantidis and Tsagkroni, 2017: 274). Despite some reforms in the 1990s, such as the introduction of Independent Authorities, the PA's professionalisation remained limited (Sotiropoulos, 2007: 134-137; Ladi, 2011).

Endemic Weaknesses Characterising Modern Greek Public Administration

Although the Greek PA underwent significant changes, traditional organisational patterns and pathologies have endured after the country entered the Eurozone (Mosialos and Petmesidou, 2006: 185; Iordanoglou, 2010: 35). It is characterised by poorly designed structures and coordination mechanisms, resulting in profound inefficiency (Pollis, 1987; 1992; Featherstone and Papadimitriou, 2017: 241; Spanou and Sotiropoulos, 2018). Spanou (2018: 6) argues that the system's organisational shortcomings and self-defeating coordination mechanisms are responsible for reform failures.

Far from resembling Weber's (1978) "rationalized" PA, Greece's organisational structures and coordination mechanisms are poorly designed and manifest profound inefficiency (Pollis, 1987; 1992; Featherstone and Papadimitriou, 2017: 241; Spanou and Sotiropoulos, 2018). Modern Greece's PA has been criticised for its organisational pathologies, described as a co-dependent ecosystem of powerful "vested interests" (Miller, 1928: 275; OECD, 2011: 70; Spanou and Sotiropoulos, 2011: 733), which lacks capability, expertise, and knowledge. Spanou (2018: 6) emphasises that the country's dominant politico-administrative culture has traditionally resisted organisational change, arguing that "the [PA] system organisational [shortcomings] and [self-defeating] coordination mechanisms are responsible for [Greece's] reform failures". The interaction of inertia, routines, habits, and culture are characterised by a *status quo bias* (March and Simon, 1958; Olsen, 2006). Following Ladi (2012: 8), Greece's PA could be described as a "quasi-Weberian bureaucracy". Four critical factors contributed to the self-reinforcing features characterising Greece's PA paradigm.

Firstly, a significant gap existed between Greece's organisational operations' formal and informal aspects. Spanou and Sotiropoulos (2011: 724-733) elucidated that "informal practices overrode formal rules or were readily amended to suit the preferences of the government of the day." Consequently, Greece's unwieldy bureaucracy exhibited a severe "implementation deficit" regarding its functions and service delivery, further reinforcing distrust towards the PA (OECD, 2011: 55; Spanou and Sotiropoulos, 2011: 724). Against this background, Greek PA's rigidness, bureaucratic inertia, organisational complexity, and managerial incompetence detrimentally inhibited its performance and credibility (see **1.2.I**, **1.2.II**; **1.2.III**).

Secondly, corruption, inefficiency, and a lack of transparency plagued the Greek PA. Past reform attempts, such as those in the late-1990s and early 2000s, were only partially successful due to resistance from powerful interest groups and insufficient political will. Corruption and inefficiency persisted despite efforts to decentralise the PA system and increase local and regional autonomy. The OECD (2009) noted the centralised structure of Greece’s PA system, with regional governments accounting for merely 7% of total government employment, compared to the 32% OECD average. Transparency International's Corruption Perceptions Index (2009) ranked Greece 71st out of 180 countries, emphasising the pervasive corruption issues.

Third, the path-dependent features characterising the reciprocal and transactional relationship between the PA and the political apparatus, combined with the State's interventionist tradition, left an indelible mark on the PA's ethos and modus operandi (Featherstone and Papadimitriou, 2015: 20). The Greek civil service never developed Weberian-like professionalism, expertise, and independence (Spanou, 2008: 152), resulting in deficits in practical, managerial, and technical skills. The 2007 Eurobarometer survey reported that only 28% of Greek respondents were satisfied with public services, compared to the EU average of 55%. The low trust in public institutions and poor perceptions of the Greek PA revealed its perceived inadequacy.

Fourth, the Greek political-administrative apparatus relied heavily on political control (Mavrogordatos, 2001: 225; Sotiropoulos, 2007: 31, 106). The OECD (2011: 26) stated, "The central administration lacked the practical tools, culture, and ability to initiate, monitor, and implement coherent policies." Moreover, Greece's low tax collection performance had been linked to systemic weaknesses within the Greek PA. Tax revenue data from 2009 showed Greece's tax revenue as a percentage of GDP at 32.2%, below the EU average of 38.4%. Consequently, the Greek PA systematically jeopardised Greece's capacity to implement reforms associated with externally-prescribed conditionalities or reform capacity (Mergos *et al.,* 2012: 195; Rapanos and Kaplanoglou, 2014: 9).

Before the crisis of the 2010s, efforts to streamline bureaucratic processes, promote e-government services, decentralise decision-making, and improve human resource management in the public-sector were implemented, but they often failed to achieve comprehensive and systemic changes. For instance, the New Public Management (NPM) reforms implemented between 1974 and 2004 aimed to modernise and streamline the Greek PA, but the initiative lacked political support and faced resistance from interest groups, hindering progress (Spanou, 2008). Diamandouros (2013: 227) described the pre-crisis Greek PA as "inefficient, archaic, and largely ossified".

The crisis intensified Greece's PA problems and created a "window of opportunity" (Spanou, 2021: 16) to address long-standing issues. Foreign-induced conditionality in the 2010s pressured Greece to implement reforms, including measures to depoliticise the public-sector, introduce meritocracy in hiring and promotion processes, and increase transparency and accountability in the PA (see **4.2.I**; **4.2.II**; **4.2.III**; **4.3.IV**).

The next sub-section focuses on Greece’s inherent weaknesses in implementing reforms.

2.2.V Greece’s Limited Reform Capacity

The inherent weaknesses in Greece's reform capacity prior to 2008 are well-documented (Kaufmann and Kraay, 1999: 27; Featherstone and Papadimitriou, 2008: 36; 2012: 33; 2015: 14; Makrydemetres et al. 2013: 118, 121; 2016: 30). Consequently, Greece has been seen as a laggard in Europeanisation literature, often struggling to turn legal texts into effective policies (Kalaitzidis and Zahariadis, 2015: 73; Papadimitriou *et al.,* 2019: 454). The European Commission’s (2009) Annual Reports on Monitoring and Application of EU Law showed Greece having one of the highest pending infringement cases in the EU, with 152 cases. The Progress Reports on Greece's convergence programmes (EC, 2009b: 23;36) further stressed the difficulties in implementing reforms and the need for stronger political commitment. Furthermore, The European Court of Auditors (ECA) (2009: 7) also highlighted Greece's poor management of EU funds, with one of the highest error rates among member states.

Greece's reform capacity challenges extend beyond its PA system, with structural constraints including a failure to foster consensus and cooperation, an adversarial political culture, widespread mistrust towards politico-administrative actors, and tolerance for clientelism and étatism (Mouzelis, 1979: 66; Featherstone, 2013: 26). Greece's weak reform capacity has been influenced by a multitude of factors, including cultural dualism, adversarial and zero-sum political culture, clientelism, rent-seeking and patronage-led politics, state interference or étatism, and a dysfunctional public administration system. These factors have created an environment where reform implementation has been challenging.

The path-dependent legacies of the cultural dualism in Greece have led to a divide between modern, European-oriented strata and traditional, domestic-oriented ones, creating tensions that hinder reform efforts (Mouzelis, 1995: 69). This dualism has contributed to a lack of consensus and cooperation between different political and social actors, further weakening the country's reform capacity (Featherstone, 2013: 26).

The adversarial and zero-sum political culture in Greece has fostered an environment where political parties focus on short-term gains and seek to undermine their opponents rather than collaborating on necessary reforms (Nikolakopoulos, 2005: 42). This culture has led to a lack of continuity in policy implementation and a reluctance to take ownership of much-needed reforms (Tsarouhas, 2018: 10).

Clientelism, rent-seeking, and patronage-led politics have been prevalent in Greece (see **2.2.II**; **3.3.II**; **4.3.II**), leading to an inefficient allocation of resources and a focus on securing political support instead of implementing effective policies (Lyrintzis, 2005: 179). This system has perpetuated corruption and further hindered the development of robust reform capacity (Mavrogordatos, 1997: 121).

State interference or étatism (see **2.2.III**; **3.3.III**; **4.3.III**) has been a significant factor in Greece's weak reform capacity, as the state has traditionally played a central role in the economy, often at the expense of efficiency and competitiveness (Makrydimitris *et al.,* 2013: 118, 121; 2016: 30). This approach has limited the space for private sector development and stifled innovation, further hampering the country's ability to implement necessary reforms (Featherstone and Papadimitriou, 2008: 28).

Greece's dysfunctional PA (see **2.2.IV**; **3.3.IV**; **4.3.IV**) system has been characterised by excessive bureaucracy, a lack of meritocracy, and a complex legal framework that impedes efficient policy implementation (Spanou, 2008: 121). This dysfunction has further exacerbated the country's weak reform capacity and hindered the effective execution of reforms (Kalaitzidis and Zahariadis, 2015: 73; Papadimitriou *et al.,* 2019: 454).

The implementation gap and "slowness of implementation" in Greece primarily stem from flawed reform formulation and design (Monastiriotis and Antoniades, 2012: 51-52). Ladi (2012: 17; 2013: 8; 2018: 5; 2020: 12) argues that the main issue lies in the absence of data, evidence-based policymaking, and the political system's neglect of expert knowledge. She emphasises the importance of incorporating experts' insights into policy development to bridge the knowledge gap and improve reform outcomes in modern Greece.

Given these factors, it is unsurprising that Greece, before the crisis, was considered the most unlikely place to implement reforms successfully. This is evident in the Sustainable Government Index (SGI) rankings compiled by the Bertelsmann Foundation (2009: 21, 2011: 15, 2016: 18, 2017: 24, 2018: 29), where Greece consistently ranked last among 41 OECD countries in “policy performance' and 'economic policies'.

The next section presents this thesis’ comparative research design and methodological underpinnings and engages with the concept of deep-seated change.

2.3 Operationalising Change, Methodology & Research Design Questions

The previous section identified the path-dependent pathogens and engaged with the linkages scholars have made, emphasising the resilience of these perennial features. This section presents the research design and methodological framework adopted to address the research question and associated sub-questions guiding this PhD thesis. Moreover, it operationalises the theoretical framework of Historical Institutionalism (HI). Employing CHA in conjunction with HI and its key tenet - path-dependence theory, this section provides a systematic and rigorous guide to identify path dependencies or path-dependent patterns across countries, particularly focusing on the Greek context. Furthermore, this section offers empirical directives for researchers aiming to uncover evidence of structural and institutional indicators that exemplify these path-dependent phenomena while maintaining a robust comparative historical perspective.

2.3.I presents the research design focusing on the case study method and the qualitative structured and focused comparison, which will be adopted to examine the two most severe crises in Greek history and summarises the methodological approach of CHA. The argument emerging is that quantitative bias in the existing comparative research on the country's experiences with crisis necessitates being complemented with a qualitative perspective that is historically grounded and theoretically informed.

2.3.II presents a blueprint for researchers could follow seeking to complete a research project that seeks to identify path dependencies in any country, as well as in Greece specifically. It also highlights what one should look for empirically when investigating each path-dependent feature identified and how to research their 'intervention' process and effects as variables.

2.3.III discusses what constitutes change, presenting key arguments on the nature and driving forces behind institutional transformation or deep-seated change.

2.3.I Research Design

The case study method is an extensively utilised research approach in qualitative studies, offering unique insights into real-world phenomena (Yin, 2014: 16; Flyvbjerg, 2006: 219). This thesis employs a comparative single-country research design, systematically comparing two instances of crisis to draw inferences about their similarities and differences (Baskarada, 2014), which enables the investigation of complex social, political, and economic phenomena in their natural context while maintaining control over the variables under study (Crowe *et al.,* 2011: 100).

The comparative single-country approach is essential for exploring intricate issues in real-life settings, fostering a nuanced understanding of the phenomena under examination. This approach is characterised by in-depth investigation, multifaceted analysis, and ongoing comparison of data and theory (Eisenhardt, 1989: 532-550; Rashid, Rashid, and Waseem, 2019). Additionally, it contributes to identifying patterns and trends that inform our comprehension of complex issues.

When studying economic crises across different periods, the comparative single-country approach involves selecting a country experiencing crises at various times and analysing their similarities and differences. This strategy enables researchers to identify factors contributing to the crises and effective response strategies. Moreover, by comparing crises across different periods, researchers can discern changes in economic policies or institutions over time, providing insights into a country's response to economic crises and the factors shaping such responses.

This thesis employs a *qualitative structured and focused comparison* (George and Bennett, 2006: 67) to analyse Greece's economic crises during two distinct periods: the Great Depression of the 1930s and the Eurozone Crisis of the 2010s. Adopting this focused approach permits the researcher to delve into specific aspects of the historical cases examined, such as deeply entrenched features and path-dependencies characterising the Greek context, which enhances my work's analytical depth.

Whilst primarily qualitative, this thesis also utilises descriptive economic statistics in its empirical analysis of the two periods, allowing it to identify some unique similarities and differences and broader continuities and changes. The quantitative time series approach, exemplified by the work of Chouliarakis and Lazaretou (2014) and Chouliarakis et al. (2017), treats all points in time uniformly, which may not adequately account for the importance of certain periods, particularly concerning path dependencies. Thus, the qualitative approach becomes indispensable for a comprehensive analysis.

The selection of the two cases – the post-1929 Great Depression and the post-2008 Global Financial Crisis – follows a combination of Mill's "method of difference" and "method of agreement" (Mill, 1973: 388-406). This approach enables the identification of factors that contributed to the crises and shaped the immediate response to those crises. By maintaining a robust comparative perspective, the thesis enriches understanding of the crises and their aftermath, contributing to the academic discourse on economic crises.

Adopting a historical perspective, the thesis analytically examines the prelude to the crises, their outbreak, and their immediate responses. This comparative single-country approach facilitates a more nuanced understanding of the phenomena under examination, uncovering patterns, trends, and relationships that might otherwise be obscured in a broader comparative analysis. This structure enables a comprehensive examination of the crises' developments and how they shaped the country's immediate response to these challenging periods.

Methodological Framework: Comparative Historical Analysis (CHA)

This thesis utilises the methodological framework of CHA, a suitable approach for examining continuity and change in Greece during two distinct periods, the 1930s and the 2010s. According to Falleti and Mahoney (2015), the comparative sequential method is the "principal overarching methodology of CHA" and involves "the systematic comparison of two or more historical sequences". CHA focuses on large-scale and often complex outcomes, examining "cases" extrapolated into sequences of events and deriving inferences from analysing and comparing those sequences (Falleti and Mahoney, 2010: 20-24). Recognising its distinguished pedigree in political science, CHA is valuable for identifying how historical legacies and path dependencies have influenced contemporary settings.

First, CHA aims to better understand complex social, political, and economic phenomena across time and space by adopting a comparative approach, integrating synchronic and diachronic perspectives, and emphasising empirically grounded, theoretically informed, and deep case-based research. This comprehensive framework is ideal for investigating politics and political economy's process and temporal dimensions. Little (2012: 145) contends that CHA enables researchers to "make careful statements about macro-macro and macro-micro causal relations", facilitating the identification of causality patterns and macro-conclusions regarding political and economic systems change over time in each country, such as Greece.

Second, CHA allows researchers to comprehend how and why particular outcomes occurred in different contexts by comparing historical cases and identifying underlying causal mechanisms and processes. By emphasising the temporal structure of processes and their effects, CHA has initiated a burgeoning debate about the patterns associated with institutional change (e.g., Thelen, 1999; 2003; 2004). Thelen and Mahoney (2015: 38) highlight that CHA acknowledges the temporal structure defining variables and processes, capturing gradual, slow-moving causal processes often difficult to discern. This focus on temporal structures is particularly beneficial for understanding complex phenomena.

Third, CHA proves advantageous for investigating political and economic phenomena that unfolded over time and in various contexts, as evidenced by the burgeoning interest in CHA (e.g., Green and Shapiro, 1994; Friedman, 1996; Mahoney and Rueschemeyer, 2003). Adopting CHA to compare two or more cases enables researchers to identify patterns of continuity and change over time, establish linkages between numerous sequences, processes, and causal mechanisms, and ascertain how incremental changes can trigger significant transformations. This comprehensive approach allows a more nuanced understanding of political and economic developments.

Fourth, CHA is a valuable methodological framework for understanding path-dependence and the long-lasting impact of historical legacies on contemporary settings. In this thesis, examining Greece's response to the economic crises of the 1930s and the 2010s, CHA provides a valuable methodological approach for identifying and analysing similarities and differences between the two time periods, enabling exploration of how the past has influenced the contemporary setting. CHA involves comparing two or more cases to determine their similarities and differences and identify causal relationships between variables. In the context of this thesis, this process includes analysing how the deeply entrenched historicity of the domestic setting, such as behaviour and decision-making patterns, persists over time despite contextual changes and new challenges and opportunities, thus offering valuable insights into the dynamics at play.

The next sub-section operationalises the HI approach and presents a blueprint for scholars interested in researching the process and effects of path-dependency.

2.3.II Operationalisation of the HI Approach: a blueprint for researching the process and effects of path-dependency

Path-dependency involves understanding how a system or institution's historical development and evolution can lock it into a particular trajectory, making it difficult to change course (Pierson, 2000; Mahoney and Thelen, 2010). Researching path-dependencies in any country, including Greece, requires examining deeply entrenched historical processes, identifying critical junctures, and adopting a historical institutionalist (HI) perspective.

One must first adopt the HI perspective to embark upon a research project that identifies path dependencies or pathologies in any country or Greece. This approach recognises the role of past events, the history and evolution of institutions, and historical legacies in conditioning contemporary policy-making decisions and shaping future developments. Researchers should closely examine and analyse the historical trajectory of the interplay between political and economic institutions. Tracing the development of key institutions, such as a country's monetary and fiscal policies, over time and explaining how they interacted with economic shocks is crucial.

Moreover, researchers must examine the relationship between a country's institutions and economic outcomes. The role of power relations and resource distribution in shaping these institutions' development must be considered. Adopting a historical analysis from a comparative perspective is necessary, considering the role that historical events and institutional arrangements play in shaping the contemporary political and economic landscape.

To operationalise the HI approach, one could conduct a case study analysis. This involves a detailed examination of empirical data and historical developments combined with the evolution of political and economic institutions in each country (in this case, Greece). Recognising the role of past events, the history and evolution of institutions, and historical legacies in conditioning policy-making decisions in the contemporary setting and shaping the path of future developments is essential.

I. Cultural Dualism, Adversarial & Zero-Sum Politics

Cultural dualism, a multifaceted phenomenon reflecting the coexistence of two distinct undercurrents within a political system (Averitt, 1968; Casals, 1980), requires a comprehensive and interdisciplinary approach to empirical investigation. Researchers should combine qualitative and quantitative methods to examine cultural dualism's process and effects, particularly concerning adversarial and zero-sum politics.

Public opinion surveys, electoral data, and political history offer insights into societal cleavages and polarisation (Norris and Inglehart, 2019: 32,36; Lijphart, 2022: 58, 61, 63). Analysing trust in institutions and attitudes towards global powers, alongside voting trends and parliamentary patterns, helps disclose the presence of cultural dualism. Media content analysis, through discourse analysis, can also identify divisive language and the "us versus them" framing (Van Dijk, 2001: 85). While conspiracy theories play a role in reinforcing cultural dualism, other factors contribute to the phenomenon such as foreign intervention, political corruption and maladministration scandals, corruption, and economic disruption

(Swami and Furnham, 2012: 45). Other elements contributing to cultural dualism range from education and literacy rates; urbanisation and rural-urban migration, religion, and colonial legacies and globalisation (Bourdieu, 1986: 47; Giddens, 2001: 55; McQuail, 2010: 103)

Examining social crises and the government's response to them provides evidence of an adversarial political culture (Tilly, 2003: 76,81). High levels of unrest indicate a polarised environment, reflecting deep societal divisions and conflict. Furthermore, political, and economic crises are characterised by a self-reinforcing relationship with cultural dualism, with crises exacerbating divisions and cultural dualism amplifying the negative effects (Mudde, 2013: 70,73).

Countries characterised by cultural dualism often exhibit elevated levels of political violence and social unrest, such as strikes and demonstrations. This unrest reflects deep societal divisions and conflict. During moments of crisis, political violence and unrest intensify, further undermining societal cohesion and stability (Tilly, 2003: 76, 81).

The adverse effects of the cultural dualism are most apparent in times of crisis. The self-reinforcing relationship between crises and dualism exacerbates existing divisions, fostering adversarialism and zero-sum politics. This environment contrasts starkly with the "politics of accommodation," marked by consensus and cooperation (Lijphart, 2022: 69).

II. *Patronage Politics, Clientelism, Vested Interests and Corruption*

Examining empirical evidence of clientelism, patronage politics, vested interests, and corruption necessitates a multifaceted approach that integrates qualitative and quantitative methods (Kitschelt, 2000). Researchers should utilise diverse sources, such as statistical data, case studies, and primary documents, to investigate the intricate dynamics of clientelism and corruption within political systems.

Corruption entails power abuse for private gain, encompassing a broader range of illicit activities than clientelism (Johnston, 2005: 15). Vested interests involve groups or individuals protecting established economic or political advantages, potentially obstructing reform implementation due to resistance against changes threatening their current position (Tsebelis, 1990: 50). To demonstrate clientelism and corruption's direct impact on political and institutional processes, researchers must establish causal links with specific outcomes, such as policy failures or erosion of public trust (Warren, 2004: 328-330).

Various aspects should be analysed, including public spending, policy implementation, informal networks, institutional decision-making, and public perceptions (Kitschelt, 2000; Gellner and Waterbury, 1977). Investigating public spending data, procurement processes, and resource allocation can identify clientelism and corruption patterns, examining variations across regions, sectors, and time periods.

Path-dependence, the idea that historical events and decisions shape and constrain present choices, is another essential aspect when examining clientelism and corruption (Pierson, 2000: 251-252). A multifaceted perspective allows for exploring how clientelism and patronage politics weaken institutional capacity, leading to corruption and rent-seeking (Kopecký *et al.,* 2016). Clientelism and corruption's legacies can have enduring impacts on political systems, affecting institutions and policymaking for extended periods.

Additional evidence can be found in investigative journalism, media coverage of political scandals, and public opinion data, which help gauge perceptions of corruption and patronage and their impact on public trust in government. Publications like Transparency International's annual reports, Corruption Perceptions Index (CPI), and the World Bank and IMF's political and economic governance reports offer further insights.

To address inherent limitations in studying clientelism, researchers should employ triangulation, using multiple data sources and methodological approaches to validate findings (Denzin, 1978). Triangulation helps tackle the complexities of clientelism and provides a more comprehensive understanding of its relationship with corruption and vested interests.

III. Etatism

Étatism refers to a political and economic system prioritising centralisation and state intervention over market-based solutions (Jessop, 1990). Investigating étatism empirically can be challenging due to its complexity, context-specific manifestations, and data access difficulties.

Researchers should analyse the size and influence of the public-sector, the government's involvement in economic planning, and state ownership and control over key industries. Evidence could include the proportion of public-sector employment, government spending relative to GDP, and the presence of nationalised companies or industries subject to significant regulation (Jessop, 1990: 43).

State interference may be evident through the establishment or protection of monopolies. In étatist systems, the state may grant exclusive privileges to specific companies or sectors, limiting competition and potentially resulting in higher prices, reduced innovation, and less consumer choice. Researchers can examine the prevalence of monopolies, barriers to entry, and the state's role in establishing or maintaining such market conditions (Jessop, 1990: 55).

Étatism can manifest through the state's daily economic and political penetration. This could involve state involvement in decision-making processes at various societal levels. Evidence of this can be found in the prevalence of state-controlled media, restrictions on civil liberties, or the pervasive presence of state institutions in everyday life (Jessop, 1990: 66).

Étatism can also be evidenced through the state's control over and expenditure on public services, social welfare programs, and public-sector salaries. This can involve substantial spending on healthcare, pensions, and public-sector wages. Researchers can analyse the proportion of government spending allocated to these areas, comparing it to overall GDP and investigating potential links to étatist policies (Jessop, 1990: 72).

In addition to examining state-economy relationships, researchers can also examine the relationship between the state, unions, and civil society, focusing on fragmentation and lack of coordinated decision-making. In systems characterised by disjointed corporatism, unions significantly influence economic policy, but their relationship with the state might be characterised by ad-hoc interactions rather than formalised channels of consultation and negotiation. Moreover, multiple unions may pursue their narrow interests in parallel or conflicting manners, with limited capacity to mediate and balance their demands (Schmitter and Lehmbruch, 1979).

IV. Dysfunctional Public Administration (PA)

Investigating dysfunctional public administration (PA) involves identifying indicators such as bureaucratic inefficiency, corruption, and mismanagement of resources (OECD, 2021: 12). Empirical evidence can be collected through surveys, interviews, and data analysis. Multiple methods enable a comprehensive approach.

Researchers should consider Weberian characteristics and typologies (Weber, 1968: 21). Non-Weberian systems lack principles of hierarchy and impartiality, while quasi-Weberian systems display a mix. The role of legacies and path-dependency in PA is crucial (Pierson, 2000: 252).

To identify a dysfunctional PA, one could examine poor service delivery, application processing delays, and low public trust (Bertelsmann Foundation, 2020: 34). Horizontal polarization includes political interference, absence of meritocracy, and politically motivated dismissals (OECD, 2021: 19). These factors reveal systemic issues.

Clientelism involves using public resources to reward political supporters or punish opponents (Bertelsmann Foundation, 2020: 48). Researchers should analyse public spending patterns for favouritism towards specific regions or constituencies. Such an analysis can uncover hidden power dynamics.

Assessing organisational culture involves evaluating formal structure, hierarchy, and informal networks undermining decision-making (InCise Index, 2020: 26); a lack of rationalisation and inefficient resource allocation characterises Dysfunctional PA. Identifying these issues enables targeted reform.

High instability or turnover may indicate dysfunction. Analysis of public administrators' tenure, political cycles, and politically motivated dismissals is required (OECD, 2021: 32). Examining public resources' use for political purposes involves analysing patronage, clientelism, and electoral manipulation (Bertelsmann Foundation, 2020: 56).

In each country, researchers should focus on the unique historical, political, and economic context shaping PA, including the impact of crises, political parties, and EU legislation on governance structures (InCise Index, 2020: 15). Integrating various empirical evidence sources allows a nuanced understanding of PA functioning, challenges, and potential reforms. Considering legacies and path dependencies is essential for accurate analysis.

V. Weak Reform Capacity

Empirically investigating weak reform capacity involves examining six factors. First, researchers should identify the inability to initiate, implement, and sustain reforms manifested in policy gridlock, slow decision-making, and low public trust (Haggar and Kaufman, 1995; Tsebelis, 2002; Acemoglu and Robinson, 2002). Second, reform capacity indicators from the World Bank, World Economic Forum (WEF), and Organisation for Economic Cooperation and Development (OECD) offer valuable data (World Bank; WEF; OECD).

Third, vested interests opposing reforms, such as labour unions and business associations, should be investigated. Evidence of policy concessions due to pressure from vested interests indicates weak reform capacity. Fourth, researchers should examine institutional, political, and societal resistance to change, including frequent leadership changes, bureaucratic dysfunction, and low public trust. International organisation reports, surveys, polls, and civil society insights are valuable.

Fifth, expert interviews or focus groups with policymakers, PA officials, and stakeholders can provide insights into a country's reform capacity, resistance to change, and civil society support. Analysing past reform attempts and outcomes helps identify hindering or facilitating factors. Sixth, parliamentary records, media reports, and academic literature can reveal consensus or resistance levels among policymakers and the country's capacity to implement reforms (Pierson, 2000: 251-267; Thelen, 2004; Mahoney, 2010).

Incorporating path-dependence theory and the role of historical legacies, researchers should assess how historical institutional choices impact current and future reform capacity. Moreover, conditionality and credibility affect reform capacity, as external pressures from international organisations can influence a country's ability to implement reforms. Researchers can thoroughly investigate weak reform capacity and its intervention as a variable by examining these six factors and considering path-dependence, legacies, conditionality, and credibility.

The next subsection defines deep-seated change and sketches out how one could identify it if one saw it.

2.3.III Defining, Identifying & Recognising Deep-seated change

Deep-seated change pertains to alterations at the core of a system, resulting in a fundamental or even permanent shift in its structure and functioning. This type of change is characterised by its transformative nature, as it goes beyond incremental modifications and has long-lasting effects. Identifying an opportunity for deep-seated change can be complex, as it necessitates a comprehensive understanding of the country or institution's historical, political, social, and economic context under examination. The theoretical framework of Historical Institutionalism (HI), in combination with the Multiple Streams Framework, can help recognise the potential for change (Kingdon, 1984: 21; Hall and Taylor, 1996: 936). Therefore, identifying deep-seated change requires thoroughly examining the existing structures and dynamics within a particular system, institution, or society, including factors such as power relations, cultural norms, and historical patterns.

One must recognise significant shifts in these underlying structural and institutional dynamics to determine deep-seated change. Sabatier and Jenkins-Smith (1999: 125) stress that

> "The only way to change the policy core attributes of government policy in that jurisdiction is through some shock originating outside the subsystem that substantially alters the distribution of political resources or the views of coalitions within the subsystem."

This statement underscores the path-breaking capacity of external shocks or crises. Consequently, crises have the potential to trigger a realignment or recalibration of policy beliefs and paradigms, rendering the policy agenda more susceptible to reform. However, the extent of reforms depends on the changes induced in coalition dynamics or the reassessment of existing coalitions. Evidence of deep-seated change might include alterations in policies, institutions, and attitudes that indicate a departure from established patterns, or "path", and a general move towards a more fundamental transformation.

Observable outcomes, such as social, economic, and political improvements, may also accompany deep-seated change. However, it is important to note that deep-seated change takes time to materialise fully and may not be immediately visible; to infer whether a deep-seated change has occurred, one would need to observe the lasting impact of these trends and events and assess whether they have resulted in a departure from the status quo. Therefore, only a longer-term perspective on change can capture the full impact of a sequence of events, which might not be considered significant individually if not examined within the broader sequences that have occurred across time.

To achieve this, one must evaluate changes in attitudes, policies, and behaviour over time, providing insight into whether a fundamental change has occurred. To identify deep-seated change, one can rely on theories of institutional change that emphasise the temporal succession of events, allowing a researcher to contextualise their findings. Deep-seated change is often linked to critical junctures, which are moments when the existing institutional path is disrupted, rendering the existing system vulnerable to change and leading to the possibility of a new trajectory. Critical junctures can be caused both by endogenous factors (i.e., social movements or demands, as well as political upheaval) and exogenous factors (i.e., economic crises or external shocks) (Capoccia and Kelemen, 2007: 341). Consequently, critical junctures are linked to crises or other transformational events, characterised by increased uncertainty, acute levels of conflict, and situations where the possibility of discontinuity is increasingly likely.

This discussion illustrates that, for deep-seated change to occur, it requires re-examining the existing paradigm, re-articulating the rhetoric, a high degree of absorption capacity that can withstand the developments, and adapting the adaptation of the predominant policy paradigm(s) or ideas. Crises, with their multi-faceted, disruptive, and perplexing nature, are moments that invite examination of transformation and upheaval. Acknowledging the complexity of comprehending them, it is necessary to analyse their articulation. Regardless of the magnitude of policy change, it is inextricably linked to exogenous shocks (John, 1998: 172). Briefly, crises are considered optimal times for deep-seated change to materialise.

This is greatly attributed to the fact that, in a crisis, the normal functioning of a system is disrupted, generating a state of emergency that disrupts established patterns and creates an opportunity for actors to question and challenge the status quo. Kingdon (1984: 99-100) explains that "problems are not self-evident [...] They need a little push to get the attention of the people in and around the government. That push is sometimes provided by a focusing event like a crisis or disaster that comes along to call attention to the problem." In other words, the opportunity for change only manifests itself for a brief period. This thesis concurs with Kingdon (2011: 116) that change occurs due to a combination of factors and when the potential constraints on change are not stern.

First, the shortcomings of the institutions and the broader system must be recognised. What he describes as the problem stream highlights the changes in public perceptions of problems, requiring policymakers to take action(s) and efforts to address them. Second, the existing framework or "way of doing things" is thrown out of balance, and new actors and ideas can emerge and shape the system's future direction. The emergence of novel actors and ideas can renegotiate the "rules of the game". The outcome of these renegotiations could then shape the future path of the system and result in or trigger deep-seated change.

In addition to Kingdon, Streeck and Thelen's (2005: 9-10) five models of gradual change can provide valuable insights into the potential for deep-seated change.

Streeck and Thelen's (2005: 9-10) five models of gradual change, which include layering, drift, and other mechanisms, can simultaneously lead to radical transformation. For instance, layering occurs when new institutions are established without abolishing existing ones (Schickler, 2001: 715), and drift transpires when actors fail to update a policy, leading to shifting political outcomes (Hacker and Pierson, 2010: 167). This concept has been applied to various research areas, such as corporate governance in Europe (Cioffi, 2010: 319), state-citizen relationships in Japan (Vogel, 2006: 1), and game theory (Callander and Krehbiel, 2013: 373). Drift is often employed by actors defending the status quo.

Crises, as disruptive and perplexing events, create opportunities for institutional adaptation and learning (1989: 65; 1993: 2; 1997: 16) and present an existential test to institutions, offering a "window of opportunity" for change (Birkland, 2009: 74). However, opportunities for change often go unseized (Brundiers, 2016: 143; Fratzeskaki, 2011: 3; Pelling and Dill, 2010: 184), and policymakers may engage in "superstitious learning" by undertaking symbolic actions or reforms without addressing underlying issues (Birkland, 2009: 147-148). Roberts (2014: 1) and Riedl and Roberts (2017: 3) illustrate how external shocks can disrupt party-political systems and state-led development policies.

Further evidence of deep-seated change can be found in the five archetypes of change formulated by Newig et al. (2019), which are the following:

a. Adapting institutions in response to crises

b. Consistent learning from unsuccessful experiences or experiences of failure

c. Intentional disruption of untenable institutions

d. Capitalising on the process of decline

e. Pro-active and thoughtful handling of decline and failure

Importantly, these archetypes presented by the authors focus both on the structure and function of institutions (Newig *et al.,* 2019: 24). While crises are generally understood as moments which bring to the fore the weaknesses and shortcomings of an institution, they also have the potential to trigger a process of institutional adaptation and improvement through the implementations of reforms and learning, which could improve the overall functioning of the system. By analysing the presence of these archetypes, researchers can gain insights into whether deep-seated change has occurred within a particular system or institution.

To sum up, deep-seated change refers to fundamental and transformative shifts in the structure and functioning of a system, institution, or society. Identifying such change necessitates a comprehensive understanding of historical, political, social, and economic contexts and an examination of underlying structural and institutional dynamics. Theories of institutional change, such as Historical Institutionalism and the Multiple Streams Framework, and Streeck and Thelen's five models of gradual change can provide valuable insights into the potential for deep-seated change.

As disruptive and perplexing events, crises create opportunities for actors to challenge the status quo and initiate deep-seated change. Kingdon's problem stream theory highlights the importance of recognising institutional shortcomings and altering the existing framework to allow new actors and ideas to shape the system's future direction. Streeck and Thelen's gradual change models (2005: 9-10) and understanding the role of crises in institutional adaptation and learning provide a more comprehensive picture of the complex processes that drive deep-seated change. Moreover, Newig et al.'s five archetypes of change offer additional evidence for deep-seated change, focusing on institutions' structure and function in response to crises and failures.

Ultimately, identifying deep-seated change requires a long-term perspective and thorough analysis of the lasting impact of trends and events on a system or institution. By examining the presence of critical junctures, changes in attitudes, policies, and behaviour over time, and the manifestation of the archetypes of change, researchers can gain valuable insights into whether deep-seated change has occurred and the factors that contribute to its emergence.

2.4 Conclusion

2.1 formulated a concise synopsis of Historical Institutionalism (HI) and summarised its transformative insights and explanations *vis-à-vis* continuity and change. I underlined the temporal concepts informing HI's toolbox –such as *path-dependence* and *critical junctures* – and the compelling reasons this theoretical framework provides to understand why self-reinforcing processes (i.e., informal norms and practices) are resilient in politico-economic life.

In addition to contending that "history matters" and emphasising the vitality of investigating periods from an overarching historical perspective (*longue durée*), the HI framework conceives the process of institutional change to be characterised by long periods of stability and even "stasis". The discussion on HI helps us in two ways. *First,* engaging with the temporal concepts informing the HI toolbox allows us to understand why domestic features are resilient. *Second*, in addition to explaining that moments of institutional transformation are so rare, the HI scholarship allows us to determine the necessary conditions for deep-seated change to occur.

This thesis examines whether the crises of the 1930s and 2010s triggered a *critical juncture* for Greece's political and economic paradigm. However, I argue that if a crisis triggers first- and second- rather than third-order changes (Hall, 1992: 279), it should *not* be classified as a *critical juncture* but as a *missed critical juncture*. This theoretical backdrop sets the stage for my empirical analysis in **Chapters 3** and **4**, combined with the comparative examination of the two crises in **Chapter 5**, which will be facilitated in tandem with the three conceptual optics identified in **Chapter 1.**

2.2 embarked on a closer inspection of the enduring features predominating Modern Greece's Political Economy and mode of governance from the ascent of the 19th century until today. By examining the domestic politico-institutional context from a historical standpoint and bringing together the political economy, economic history, and the structural/institutional constraints of the Modern Greek state, it extrapolated several systemic cleavages, prevailing traits, and cultural repertoires and/or specificities, which I describe as *chronic pathogens*. These are the following:

i) The perennial *cultural dualism* and adversarial nature defining Greek party-political competition.

ii) the patron-client relationships binding the Greek political apparatus and the electorate (which I describe as patronage politics or *partitocrazia*)

iii) the pronounced role and routine intervention of the state in the Greek economy, or *étatism*

iv) the endemic weaknesses encompassing Greek public administration (PA)

v) Greece's systemic problems in implementing externally prescribed reforms or *reforms capacity.*

By tracing the historical and evolutional trajectories of these endogenous features and their inherent resilience over time, I delineated the *path-dependent* linkages emanating from them and brought to the fore how they have exacerbated Greece's governance problems.

The underlying argument presented here is that as *intervening variables,* the deeply entrenched *chronic pathogens* and the path-decedent processes concomitating them can act as obstacles and have a four-fold impact. *First*, they systematically inhibit the implementation of much-needed political and economic reforms, especially foreign-prescribed *conditionalities*. *Second,* in the eyes of Greece's international creditors, these idiosyncratic features exacerbate the country's *credibility* and the creditors' distrust of the Greek authorities (i.e., the Government, the public administration, and the monetary authorities). *Third,* because of their self-reinforcing processes, the *pathogens* have resulted in excessive *external dependence* and foreign indebtedness, making the country a *serial defaulter* (Kohlscheen, 2007). *Fourth*, as *intervening variables*, the *path-dependent pathogens* can act as obstacles for a departure from the *status quo* to materialise, making it increasingly difficult for the country to respond to exogenous shocks, and inhibiting crises from triggering *paradigmatic shifts* in political and economic policymaking (see **2.2.III**; **4.3**).

The *pathogens* will form the backbone of this thesis' analysis for the following empirical chapters: the Great Depression of the inter-war years (Chapter 3) and the post-2008 Eurozone *crisis* (Chapter 4). This framework will allow me to address the central research question: ***Which factors shaped Greece's immediate response to the post–1929 and post–2008 economic crises?***

To answer this central RQ, I will focus my attention on three supplementary sub-questions (SQ):

- ***SQ1*** *What were the core features of the Greek political and economic system in the period preceding the outbreak of the crises in the 1930s and 2010s?*
- ***SQ2*** *How did the economic crises of the 1930s and the 2010s manifest themselves domestically and internationally?*
- ***SQ3*** *How did Greece's international creditors respond to the country's economic predicament, and what was their underlying recipe to mitigate the effects of the crisis?*

The next chapter focuses on the first empirical case study comprising this single-country CHA of the post-1929 Great Depression and the post-2008 Eurozone, focusing on the Greek case during the Great Depression.

Chapter 3

Greece & the Great Depression of the 1930s

Introduction

The preceding chapters engaged with this thesis's conceptual, theoretical, and methodological tenets. This chapter covers the inter-war period and the post-1929 crisis, addressing the following sub-question (SQs):

- **SQ1** *What were the core features of the Greek political and economic system in the period preceding the outbreak of the crisis?*
- **SQ2** *How did the economic crises of the 1930s and the 2010s manifest themselves domestically and internationally?*
- **SQ3** *How did Greece's international creditors respond to the country's economic predicament, and what was their underlying recipe to mitigate the effects of the crisis?*

The insights offered in this chapter will be comparatively analysed in Chapter 5, responding to the fundamental research question (RQ) guiding this thesis:

RQ1 Which factors shaped Greece's immediate response to the post–1929 and post-2008 crises?

To address the RQ and SQs, I structure my empirical analysis in line with the three building blocks:

i) The period preceding the sudden stop and crisis (the so-called run-up to the outbreak of the shock).

ii) The outbreak and transmissions of the sudden stop (the 'crisis').

iii) The immediate response to the shock.

Section 1 delves into Greece's monetary and financial legacies, specifically addressing **SQ1**. The narrative begins with Greece's economic trajectory leading up to the Great Crash of 1929, emphasising the country's credibility deficit and substantial debt overhang. I highlight that the formation of the International Financial Commission (IFC) in 1898, tasked with enforcing the strict conditionalities on Greece, exacerbated Greece's external dependence. A decade of war (1912-1922) and ensuing socio-economic and political instability magnified Greece's credibility deficit, culminating in financial, political, and economic isolation. I analyse Greece's to contain the rampant inflation, considering the international context, and stabilisation programmes sponsored by the League of Nations (LoN) and the Geneva Protocol and discuss the interplay between the classical gold standard and its successor, the gold exchange standard (GES), in restoring the pre-war financial and monetary order. I argue that the country's external dependence and isolation Greece experienced during the early 1920s marked a critical juncture for Greek economic policy. Adopting the GES and the conditionalities of the stabilisation programmes served as a "good housekeeping seal of approval" (Bordo and Rockoff, 1996: 389) and triggered a shift towards an investment- and loan-driven strategy after the post-1929 crash.

Section 2 addresses **SQ2**, succinctly summarising the academic discourse surrounding the causes of the Great Crash of 1929. I argue that while the Crash's initial impact primarily affected America, the subsequent banking and currency crises in 1931 spread globally, leading to the Great Depression. While the Greek economy seemed insulated from the post-1929 crisis, the global trade slump and Britain's departure from the GES soon challenged Greece's externally financed development strategy. By 1932, Greek exports had contracted significantly, with agricultural commodities most affected. The Greek economy, burdened by external dependence and a substantial debt overhang (see **1.3.II**), was vulnerable to international fluctuations and banking crises.

This section critically examines the shift in Greek economic strategy following the default of 1932, shedding light on its recovery amidst political instability. I present three key arguments: Firstly, Greece's abandonment of the GES and default in 1932 initiated a swift recovery, challenging Christodoulakis' (2013) assertions. Between 1932 and 1939, real Greek GDP grew at an average annual rate of 5.6% (Kostelenos *et al.,* 2007), with industrial production expanding by approximately 40%. Secondly, the default of 1932 necessitated a shift towards state interventionism through import-substitution policies. Thirdly, despite Greece's economic rebound, the recovery was mired in political instability, undermining Greek credibility abroad and the rigour of the economic rebound.

Section 3 explores the influence of path-dependent chronic pathogens in the post-1929 period, emphasising their role in shaping Greece's crisis response and recovery process. Using the theoretical framework of Historical Institutionalism and path-dependence, I highlight the resilience of adversarialism, polarisation, rent-seeking and corruption, the principal role of the state (étatism), weaknesses in public administration, and Greece's limited reform capacity. While not directly causing the default of 1932, these persistent features hindered Greece's response to the crisis.

I provide a detailed analysis of the political landscape, revealing that polarisation and adversarialism obstructed a unified response to the crisis. Greece's default and abandonment of the GES led to increased state interventionism, manifested by the hostility towards the Bank of Greece (BoG) and plans to merge the BoG and the National Bank of Greece (NBG). The rise of Metaxas in 1936 marked a political shift towards authoritarianism, with Greece adopting elements of Italian Fascism and German National Socialism. I underscore the enduring influence of the path-dependent pathogens on Greece's economic trajectory during the crisis and the strains of the recovery, emphasising state intervention and political adversarialism, revealing the resilience of these features in the face of crisis. I argue that these issues, deeply rooted in Greece's political and economic fabric, significantly impacted its economic trajectory, shaping its response to the economic crisis and its immediate aftermath. Therefore, understanding these elements is crucial in comprehending the country's journey through economic turbulence and the strains of the recovery.

3.1 *The Run-up to the Great Depression*

3.1.I presents the financial, economic, and monetary conditions Greece inherited from the late 19th century, which made the country a serial defaulter (see Kohlscheen, 2007). I highlight Greece's *external dependence* – not only for capital but also goods – and increasing foreign debt overhang, emphasising its *credibility deficit* (see **1.2; 3.1.III**) among international creditors, which were manifested by significant events, such as the default of 1893, the imposition of 'fiscal house arrest' by the International Financial Commission (IFC) from 1897 (see Lazaretou, 2009), and the punitive conditionalities Greece faced in the aftermath of the Greco-Turkish War (see **1.3**; **3.1.IV**). I argue that Greece's excessive *debt overhang* (see **1.3.II**) inherited from the late 19th century and the onerous conditionalities it was obliged to comply with (see **1.1**) compounded the vulnerability of its agricultural and foreign-dependent economy. This section also covers the brief period of economic reconstruction in the early 20th century.

This section stresses the significance of the IFC's establishment, its role in overseeing Greek fiscal policy and constraining its ability to borrow internationally. I highlight the importance of the Valaorites Law of 1910, which empowered the National Bank of Greece (NBG) ability to intervene in the foreign-exchange market, which stabilised the monetary situation and led to the drachma's revaluation, allowing Greece to shadow the gold standard, arguing that the law played a crucial role spurring a period of robust yet short-lived economic growth.

3.1.II analyses Greece's monetary and fiscal challenges during the 1920s, underlining its burgeoning financial needs, credibility issues, and external dependence. It covers the innovative measures of the Greek authorities in 1922 and 1926 to manage rising public expenditures and obtain a loan from the League of Nations (LoN) in 1924. While covering the terms of the LoN-sponsored loan for rehabilitating the refugees, I argue that its conditionalities played a crucial role in shaping Greece's economic policies and that Greece's credibility deficit led to higher risk premiums, worsening its dire financial situation. Moreover, the onerous debt overhangs (see **1.3.II**) from the Balkan Wars and WWI, combined with the necessity of absorbing many refugees, strained the economy's limited resources and exacerbated Greece's financial predicament. The hopes for reintegrating the country into international financial markets were dispelled in 1925 when the military coup led to Britain's imposition of a loan embargo (HA_BoE, OV80-1/6, 1/2/1926). The emerging argument is that the country's poor credibility, isolation, changing domestic landscape, soaring inflation, deteriorating economic situation, and external dependence necessitated the search for a new paradigm in economic policymaking.

3.1.III focuses on the international context surrounding the Greek-specific setting. I examine the strengths and weaknesses of the classical gold standard (GS) and the global efforts to reinstate the pre-war financial and economic order amidst global monetary and fiscal turbulence during the 1920s. I argue that these efforts were built on fragile foundations, ultimately proving elusive. I analyse the core principles of the central banking (CB) orthodoxy, policy recommendations, and the conditionalities tied to the LoN-sponsored stabilisation programmes of the late 1920s, underscoring the global financial and monetary order's fragility during this period.

3.1.IV examines Greek political developments emphasising the detrimental impact of instability on the country's credibility. It engages with the country's negotiations with the LoN on additional loans and the comprehensive reforms implemented to meet the Geneva-prescribed conditionalities and comply with the monetary orthodoxy or 'canon of the times.' I argue that because of the original sin (see **1.3.I**) and the country's significant external dependence on foreign capital and goods, Greece adopted an external anchor, the Gold Exchange Standard (GES), in 1928, which in turn, catalysed a brief period of economic euphoria, which was disrupted by the Great Crash of 1929 and its subsequent aftershocks (see **3.2.I; 3.2.II**).

3.1.I Economic Legacies

During the 1880s, due to successive Greek governments' military and economic policies, Greece's foreign indebtedness surged (see Appendix, Figure 1), culminating in a debt of more than 585.4 million gold francs by 1893, with debt-servicing costs exceeding its cumulate expenditure by more than 30% (Levantis, 1944: 75). While suffering from significant weaknesses and imbalances both in its trade and balance-of-payments fronts, the Greek economy experienced a severe recession (For more on this, see Petmetzas, 2009; Meloni and Swinnen, 2017).

During this turbulent period, which historians describe as the *Long Depression*, currants accounted for around 75% of Greece's total exports (Petmezas, 2006: 8), playing a crucial role in the economy, accounting for almost 80% of the workforce (Frangakis-Syrett, 2006). Between 1860 and 1890, Greece's currant production tripled, and raisin exports quadrupled. However, France's imposition of protectionist measures to shield its producers from foreign competition, combined with the increasing competition in the international raisin market, especially from California (Chevet *et al.,* 2018), negatively affected Greece's raisin market, causing a sharp decline in currant prices and leading to overproduction. Between 1890 and 1893, the value of Greek raisin exports fell from 81.6 million to approximately 22 million drachmae (Kostelenos *et al.,* 2007). In addition to generating speculations about the country's default (HA_BoE, FO371/10765/C1851/358/19, Memorandum respecting the International Financial Commission at Athens; IA/TE $A_{10}\Sigma_{1}Y_{2}\Phi_{180}T_{3}$: 2), Greece's stagnating current exports had a ripple effect on the Greek economy. The so-called "currant crisis" fuelled widespread social unrest and political instability; the "Bloody Easter" riots in Aeghion culminated in a violent clash between raisin farmers and the government's forces, which resulted in several deaths (Gallant, 2005).

In December 1893, the Greek PM, Charilaos Trikoupis, announced Greece's "bankruptcy" and unilaterally suspended all Greece's foreign debt payments (*The Economist,* 1893; *The Times,* 1893 a,b). The Greek default is important for several reasons. *First,* it exposed the Greek economy's interdependence with its core peers and demonstrated how global economic booms and contractions directly affected it. *Second*, unlike previous defaults, in 1893, the foreign creditors were unwilling to restructure Greek debt, instead imposing humiliating conditions on Greece (Andreades, 1906: 41-51). Following this debt moratorium in the aftermath of Greece's military defeat against the Ottoman Empire in early 1987, the Great

Powers reached a settlement in September 1897, compelling the Greek government to enact the Law of Control (hereafter LoC), which entailed a rigorous framework for restructuring the Greek State's debts (Hellenic Government Gazette, 1898: 14-15; United Kingdom, House of Commons, 1898: 11-13).

Furthermore, the LoC stipulated the monetary conditions Greece needed to meet to fulfil to access international capital markets. On 25 February 1898, the International Financial Commission (IFC) was installed in Athens (HA_BoE, FO371/15963/C 123498). Although identical *fiscal house arrest* bodies were established in Serbia, Egypt, Bulgaria and the Ottoman Empire, the depth and breadth of the IFC's jurisdiction in Greece were unique and controversial (Lazaretou, 2013; Tunçer, 2015: 55-90). In addition to controlling numerous sources of revenue, such as customs duties collected in numerous ports (i.e., Piraeus, Lavrium, Corfu, Patra, Volos, Thessalonica, and Kavalla), and other monopolies in goods such as salt, cigarette paper, matches, playing cards, abrasives, petrol, kerosene, and tobacco (FO371/10765/C1851/358/19, Memorandum respecting the International Financial Commission at Athens), the IFC was able to veto Greece's efforts to secure international loans and wielded significant influence over the Greek money supply and fiscal policy (UK House of Commons, 1898: 67). Mouzelis (1979: 41) claims that "for a considerable number of years, the most vital functions of the Greek State and Parliament were exercised by a group of foreign bondholders". While the IFC's presence in Athens exposed the country's *external dependence*, the onerous terms of the LoC illustrated the country's poor *credibility*.

From 1897 until 1910, foreign lending considerably decreased, and average annual GDP growth increased to more than 3% (Psalidopoulos, 2019: 105). Such improvements were even more apparent in the monetary sphere; the devalued drachma began revaluating, reaching parity with the French franc in 1909. However, despite these improvements, the terms enshrined in the LoC effectively locked the drachma into a *deflationary spiral* (Psalidopoulos, 1989: 53-55; 148-151).

To mitigate this problem, the so-called 'Valaorites Law' (Law ΓΧΜΒ) was passed in March 1910 (*The Economist*, 12/3/1910: 557-558), which is arguably considered to be one of the most far-reaching reforms in Greek financial history (Kostis, 2003: 78-90; Psalidopoulos, 1989: 109-124). The innovative mechanics of this law allowed the National Bank of Greece (NBG) to intervene in the foreign-exchange market by raising the total volume of banknotes in circulation. The Valaorites Law laid the foundations for Greece to 'shadow' the gold exchange standard (GES) (IA/TTE: Α3Σ1Υ2Φ138Τ3: 2–3; *Financial Times*, 14/4/1915; NBG, 1912: xi; 1913: 233-240).

The next section examines Greece's monetary and fiscal turbulence in the 1920s, focusing on the innovative measures that the Greek authorities resorted to in 1922 and 1926, as well as the conditions of the loan issued by the League of Nations (LoN) in 1924. These measures aimed to alleviate the severe effects and strains of the refugee influx in the aftermath of Greece's defeat in Asia Minor. The analysis of these important historical events and economic policies highlights the complexities of the Greek economy while providing valuable insights for understanding its excessive external dependence and poor credibility.

3.1.II Where is the Money?

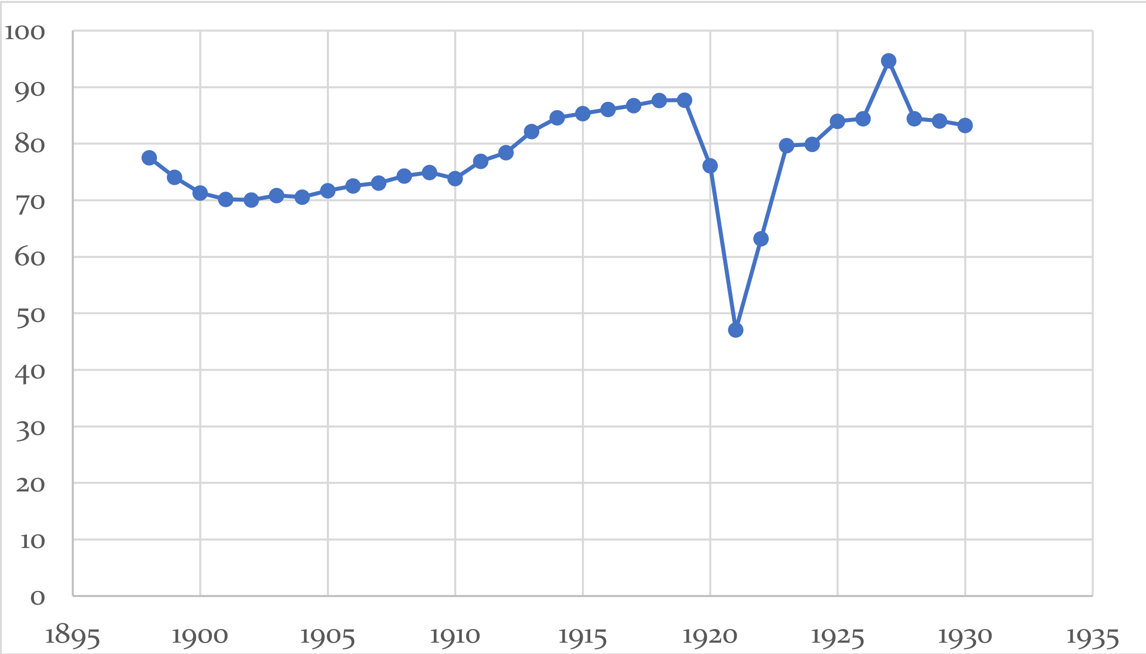
The previous sub-section emphasised that Greece remained trapped in a vicious cycle of *external dependence* during the late 19th century (see **1.3.II**); in addition to the onerous *debt overhang* which Greece accumulated, combined with Greece's humiliating defeat in the 1897 Greco-Turkish War, culminating in the establishment of the IFC, which illustrated the country's poor *credibility*. The imposition of fiscal house arrest in Greece raised significant obstacles for the country. Although estimates of Greece's public debts and GDP differ, various sources (Frangakis-Syrrett, 1998; Kestelenos *et al.,* 2007) highlight Greece's considerable debt burden, reaching 92% and 114% of the country's GDP. Maddison (2003) shows Greece's economic contraction during this period, with Greek GDP per capita declining from $1,467 in 1880 to $1,283 in 1900.

In the early 20th century, Greece's irredentist aspirations – enshrined in the *Megali Idea* doctrine – led to prolonged military confrontations with neighbouring countries. While initially successful in the Balkan Wars and the 'Great War', in September 1922, numerous military and diplomatic miscalculations culminated in a military disaster known in Greek historiography as the "Asia-Minor Catastrophe". The financial burden of Greece's expansionist dreams and the ensuing influx of 1.5 million Greek refugees from Turkey (in the context of the agreed population exchange with Turkey in 1923) further strained state finances (see Appendix, Figure 4). The Greek government's soaring deficits were covered through complex internal borrowing; the government borrowed from the NBG, which resorted to the printing machine (Pyrsos, 1936: 88-99). The close relationship between the NBG and Greek governments made the country an outlier and damaged Greek *credibility*, as illustrated in the criticism expressed by the country's international creditors (HA_BoE, FO371/8835/C2556/C6021, Annual Report for 1922-1923: 53; IA/ETE, $A_1 \Sigma_{10} Y_1 \Phi_{184}$, Diomedes to Sir Eric Hambro, 15/5/1924).

Between 1920 and 1923, Greece's public indebtedness quadrupled, reaching 8 billion drachmae, causing prices to soar by more than 25% per year (NBG, 1921; 1922; 1923; 1924; 1925; also see Appendix, Figures 1 and 6). Since the government exhausted its capacity to raise more revenues through taxation or internal borrowing (the so-called 'first dichotomisation' of the drachma in 1922), access to overseas borrowing remained limited (*Gazette of Parliamentary Debates*, 73rd Session, 21/5/1922: 1175-1199), indicating that markets were risk-averse to lend to a country lacking *credibility* (FO 371/8835/C2556, Bentick to McDonald, 29/1/1923) (see **1.2**). In February 1923, Greece's Royalist Government requested a League of Nations (LoN) loan to rehabilitate the refugees. Although the LoN pledged £12.3 million in September 1923, due to the domestic political instability, the funds were not dispersed until December 1924 (FO 371/9888/C19814/14/19 'Annual Report for 1923; Morgenthau, 1929: 199; NBG, 1926: 43-44).

Despite being of the largest loans issued by the LoN loan during the inter-war period and accounting for over 40% of Greek public expenditure in the early 1920s (HABM, Tsouderos, 1928: 25-38), the First Refugee Loan bore a high-interest rate – in nominal terms, worth 7%, and 8.7% in real terms – causing Greece's annual foreign debt costs to spike by about 34% (IA/ET, $A_3\Sigma_1Y_2\Phi_{145,}$ Diomedes to National Bank, November 11, 1924; League of Nations, 1945: 74-76). The loan failed to stabilise Greek public finances or attract foreign capital inflows (FO371/9889/C13302/19, 'Note on Greece', 20/8/1924; NBG, 1925: xvii-xviii) (Christodoulaki *et al.*, 2012; Psalidopoulos, 1989: 63). **Figure 3.1** compares the Greek public revenue as a percentage of expenditure between 1898 and 1930, illustrating that the Greek government's expenses significantly increased between 1905 and 1919. Between 1923 and 1925, expenses as a percentage of revenue wavered between 80 and 85%, a percentage share signalling the government's inability to maintain monetary, financial, and economic stability.

Figure 3.1: Greek public revenue as a percentage of expenditure (1898-1930)



Source: National Bank of Greece (various years).

As political turbulence and deteriorating monetary conditions persisted, Greece introduced a new round of forced domestic borrowing (the so-called 'second dichotomisation' of the drachma) on 23 January 1926 to raise 1.2 billion drachmae in defence bonds, which the Greek State owed to the National Bank of Greece (NBG) (NBG, 1926: 24–30; 1978: 33-35). This exposed the fundamental weaknesses characterising Greece's monetary and fiscal systems. The magnitude of financial problems Greece faced made Greek policymakers realise that the government's dependency on a private bank – the NBG – to secure liquidity was no longer sustainable (see **3.1.III**). Moreover, this period saw a significant crisis of confidence in the national currency (HA_BoE, OV 80-1/6, Norman to Niemeyer, 1/2/1926) IATE/TTE_$Α_3Σ_1Υ_1Φ_4Τ_1$: 80; (see Appendix, **Figures 4; 5**). The drachma's rapid depreciation and high inflation, combined with introducing two separate currency units via the dichotomisation measures, raised concerns among the public, businesses, and investors about the government's ability to maintain the currency's value, highlighting Greece's *credibility deficit*.

In the 1920s, Greece faced intricate issues culminating in a significant policy shift from 1926. Kingdon's (1984) Multiple Streams Framework (see **2.3.III**) provides a useful lens for analysing this juncture by exploring the interactions between the problem, policy, and political streams in the Greek inter-war period.

The problem stream highlighted high inflation and currency instability, revealing the inefficiency of existing policies and necessitating alternative fiscal strategies. Fiscal discipline and consolidation were crucial, as the Treaty of Lausanne (1923) constrained Greece's territorial aspirations, highlighting international disillusionment. This necessitated reforms to manage public debt, increase revenues, and decrease public expenditure. Political instability and regular government changes marred Greece's credibility and reform capacity.

In the politics stream, strengthening political institutions, promoting consensus, and creating a stable reform environment were key (Mavrogordatos, 1983). Greece needed to rebuild its international reputation, aligning with the League of Nations in the late 1920s to enhance credibility. Greek policymakers adhered to the League's recommendations and conditionalities and committed to international cooperation and global norms, such as the central banking paradigm (see **3.1.III**).

The policy stream saw a paradigm shift in economic and social policies, driven by the aftermath of war, the refugee crisis, and escalating debt leading to financial instability. Limited foreign investment and restricted market access exacerbated Greece's isolation, necessitating new economic strategies. A fresh social policy approach was required to assimilate refugees into Greek society through comprehensive welfare systems. Agricultural and industrial reforms, encouraging foreign investments, and regaining access to global financial markets were policy responses to Greece's economic isolation and lack of market diversity.

This analysis sets the stage for examining international efforts in the 1920s to resurrect the pre-war financial order, central banking orthodoxy, and LoN-sponsored stabilisation programmes in the subsequent sub-section.

3.1.III The International Context

The previous sub-section engaged Greece's monetary and financial problems during the 1920s, combined with Greece's poor credibility. I now focus on the international context leading to the post-1929 Great Depression.

The classical gold standard (GS), which underpinned the pre-1914 international monetary system, allowed countries to secure capital flows and fixed exchange rates by pegging their currencies (Goodhart, 1988: 19). However, it also introduced a deflationary bias to national economic policy (Singleton, 2007: 55). The First World War disrupted this system and trade, leading to issues like inflation, budget deficits, and reduced investor confidence (Eichengreen, 1992a: 125-145). The post-war period saw a shift in the international balance of power towards America, elevating New York and the US Dollar's global status (Aldcroft, 1997: 90).

After the end of the war, international policymakers prioritised restoring the GS. The League of Nations Financial Committee (LNFC) organised two key economic conferences in Brussels (1920) and Genoa (1922) to this end (League of Nations, 1945: 10-13; Eichengreen and Temin, 2000: 190-191). These conferences aimed to rejuvenate the "gold chariot" through a new Gold Exchange Standard (GES) or "golden fetters", establishing a framework for monetary cooperation and an international payment system (James, 2002: 48-50).

The GES was expected to act as an anchor between the *Scylla* – inflation – and the *Charybdis* – deflation (Eichengreen 1992: 157), bestowing economic and financial stability and stimulating international capital flows. Between 1924 and 1930, $11 billion moved across the Atlantic, resulting in a new era of borrowing in long-term capital bonds. By the end of 1928, 31 countries had adopted the GES (James 2002:

48–50), something which is more accurately captured in Figure 7 in the Appendix, covering the period between 1919 and 1938 and specifying the time when countries around the world adopted gold convertibility, combined with the year in which they were forced to impose controls in their foreign currency exchange, and ultimately, suspend their participation in the GES

Figure 3.2: Montagu Norman's Central Banking (CB) Epitome

WHAT DOES A CENTRAL BANK ENTAIL?
A Central Bank should not compete with its peers for general business.
A Central Bank should not take monies at interest on its own account nor accept Bills of Exchange.
A Central Bank should have no Branch outside its own country.
A Central Bank should not engage in a general Exchange business on its own account with any other country.
A Central Bank should be independent but should do all its own Government business – directly or indirectly – including gold and Currency.
A Central Bank should be the Banker of all other Banks in its own country and should assist them in developing its business and economic resources.
A Central Bank should protect its own Traders from the rapacity of other banks in its own country.
A Central Bank may have an Agency in another country.
That Agency should either be in its own name or should be the Central Bank of the other country: in the former case, it should do all its Banking and all Kindred business with the Central Bank of the other country.
It is deemed in practice and principle to facilitate collaborative channels with its [Central Bank peer(s)] in other countries.
And should receive the most favoured treatment and information from the Central Bank of the other country.
And should do the Banking and kindred business of its Principal's Government in the other country.

Adapted from: Sayers (1976: 74-75); Christodoulaki (2015: 31).

The conferences also promoted the establishment of independent Central Banks (hereafter CBs), which became the key tenet of the post-war monetary order (Sayers, 1956: 21; 1976: 153 –163). The central banking paradigm, which is captured in **Figure 3.2**, above paved the ground for signing the Geneva Protocol of 1927 and the disbursement of the stabilisation programmes. This agenda effectively mirrored the vision of Montagu Norman, the BoE Governor, who argued that a CB must be "a bank of the banks" and serve as "the government's bank". However, Norman's most crucial point was that a CB must be shielded from political interference (Bernanke and James, 1991). The significance of Norman's *Epitome* was illustrated in the stabilisation programmes issued by the LoN during the 1920s.

First, the recipients of loans sponsored by the LoN had to stabilise their currencies by adopting the gold exchange standard (GES) and fixing their exchange rate to a currency pegged on gold. Second, they had to establish an independent CB vested with printing rights, would not engage in commercial activities, and would restrict government interference in adopting monetary and exchange rate policies. Third, countries had to increase their revenues, balance their budgets, restructure public debt, and implement reforms, such as improving their tax collection system. The literature claims that the LoN's reconstruction programmes generally achieved their goals, with all countries effectively managing to keep inflation under control (Santaella, 1993, pp 11-15).

As shown in **Figure 3.3** below, the stabilisation programmes that the LoN disbursed during the 1920s were conditional on the implementation of institutional reforms and a commitment mechanism – 'tying each government's hands' (Alesina and Tabellini, 1990) – to cement the programmes' *credibility* (see **1.2.II**). These programmes aimed to address macroeconomic challenges and turmoil recipient countries like Greece faced throughout the 1920s. The adoption stabilisation involved a set of conditions and reform measures that countries had to comply with to receive financial assistance and technical support from the LoN. The conditionalities stipulated in the LoN programmes envisaged transformative changes in the fiscal and monetary realms, encouraging recipient countries to revamp their central banking and auditing practices (League of Nations, 1945: 19-20) and pursue fiscal and financial prudence.

Figure 3.3: International Loans Disbursed by the League of Nations during inter-war (1922-1928).

Year	Country	Nominal Amount Disbursed (in pound-sterling £)	Issue Price (in pound sterling £)	Price Received (in pound sterling)	Nominal Interest Rate	Real Interest Rate	Redempti on Period
1922	Austria	33,782,558	80	75-91.50	6%	8.95%	20 years
1924	Hungary	14,386,583	88-92	80-86.80	7.5%	9,25%	20 years
1924	Greece	12,300,000	86-88	86-88	7%	8,25%	40 years
1925	Germany	1,500,000	92	90	7%	7,6%	25 years
1926	Bulgaria	3,327,596	92-93	92-93	7%	7,6%	40 years
1927	Estonia	1,523,708	94-5	94.50	7%	7,4%	40 years
1928	Greece	7,557,903	91	91	6%	6,6%	40 years
1928	Bulgaria	4,480,412	96-97	96-97	7,5%	7,7%	40 years

Adapted from: HABoG $A_1\Sigma_{10}Y_1\Phi_{145}$ Refugee Loan: Diomedes to NBG, Nov. 11, 1924; League of Nations (1927).

However, the lack of coordination behind the efforts to reconstruct the international monetary system made it inevitable for these flaws to resurface. Eichengreen (1996: xi) explains: that the [GES] of the 1920s set the stage for the Depression of the 1930s by "heightening the fragility of the international financial system". Indeed, the GES facilitated the spread of the financial panic worldwide and undermined policymakers' capacity to respond to bank failures (see **3.2.I**; **3.2.II; 5.2.I; 5.2.2**).

The signing of the Geneva Protocol marked a turning point in Greece’s monetary policy, culminating in the establishment of an independent CB. Greece's engagement with the LoN increased in the late 1920s, especially concerning financial aid and policy reforms. While this engagement improved Greece's international credibility, it increased its economic dependence on the outside world.

The following sub-section examines how the country’s enduring financial, economic, monetary, and political problems resulted in significant reforms and changes, marking a turning point for Greek policymaking.

3.1.IV The Path Towards Inevitable Reform: conforming with the ‘canon’ of the times

The previous section engaged with the efforts of international policymakers to restore the pre-war international financial and monetary order at conferences in Brussels and Genoa. In addition to summarising the key features of the central banking paradigm, and the conditionalities of the LoN-sponsored stabilisation programmes, it highlighted that Greece marked an international outlier. This section shifts its attention to the efforts of Greek policymakers to regain access to international capital markets and foreign borrowing and the country’s negotiations for a second LoN loan.

After Theodore Pangalos’ dictatorial regime collapsed in November 1926, Alexandros Zaimes formed a five-party coalition, or “Ecumenical Government” (Mavrogordatos, 1983: 25-54), whose primary aim was to secure new international loans (Kostis, 1986: 52-53). Geneva demanded three pre-conditions for a LoN loan: settling Greece’s war debts; radically restructuring public finances to re-gain investor trust; and stabilising the drachma with a fixed exchange rate (IA/TE_$A_1\Sigma_4Y_3B_6$, Document 98/72, June 14, 1925; HA/EV, File 190: Tsouderos to Diomedes, 3/2/1925; HABoE Archive, OV80/1/33; HABoE, OV80/1/39).

In December 1926, George Kafandhares, the Greek Finance Minister, appointed a committee to propose a series of measures to meet the foreign creditors’ demands (NBG_HA, $A_1\Sigma_{18}Y_2\Phi_2$; $A_3\Sigma_1Y_1\Phi_2$; $A_3\Sigma_1Y_1\Phi_3$; $A_3\Sigma_1Y_1\Phi_4$; $A_3\Sigma_1Y_1\Phi_5$.). Measures in the recommendations included balancing the budget, adopting monetary and financial consolidation, reducing military expenditure, and modernising the taxation system (*The Economist*, 9/7/1927; BoG, 1978: 60-64). The Committee understood that Fiscal responsibility was key to addressing inflation and enhancing Greece's international reputation (*Eleftheron Vima*, 1926: 6; IA/ETE_$A_1 \Sigma_{34} Y_{33} \Phi_{146;}$ NBG, 1927: x; 1928: 4).

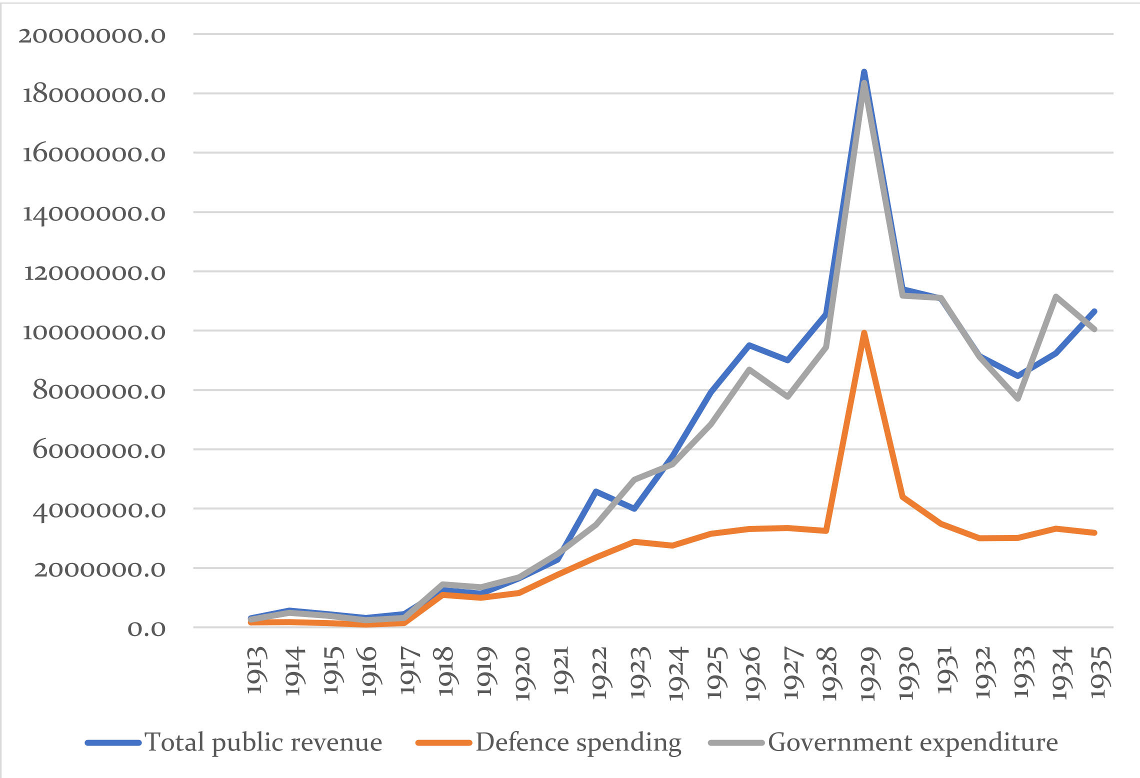
The LNFC required additional information on the Greek government's proposed reforms upon Greece's loan request. The LNFC expressed concern about the National Bank of Greece (NBG) being the government's main lender and having currency printing rights (IA/TE $A_1 \Sigma_{18} Y_2 \Phi_2$ IA/TTE_$A_3 \Sigma_1 Y_1 \Phi_4 T_{:}$ 1 –100; HA_BoE, OV80/1/38; OV80/1/39, OV80/2/1, OV80/2/17, OV80/2/20; OV80/2/24), making Greece an international anomaly.

The negotiations reached a stalemate when Geneva demanded that the NBG become an institution with pure issuing rights (‘*Banque de Depots*’), which fuelled severe resistance by NBG and the political system (HA_BoE, OV80-2/23, ‘private correspondence between LNFC and Minister Kafandhares’, 14/6/1927; IA/ETE, $A_3 \Sigma_1 Y_2 \Phi_{25}$/71, Diomedes to Tsouderos, 22/6/1927; IA/ETE, $A_3 \Sigma_1 Y_2 \Phi_{25}$/68, 23/6/1927) (Kostis, 2003: 272). In response, in late-June 1927, NBG Vice-Governor, Emmanuel Tsouderos, proposed establishing a *de novo* central bank to whom the NBG’s note-printing privileges and CB functions would be transferred to (IA/ETE, $A_3 \Sigma_1 Y_2 \Phi_{25}/7_1$ ‘Tsouderos to Diomedes’, 29/6/1927; Kostis, 1986: 74-98). Following this preliminary agreement, *Financial News* (15/6/1927) reported that the NBG “would be transformed into an issuing bank and engage a foreign advisor”. However, in late-August 1927 (HA_BOE, OV9-190/3, de Bordes to Strakosch, 14/7/1927; *The Economist*, 9/7/1927; League of Nations, 1927: 45), Panagis Tsaldares, leader of the populist People’s-Party, protested the prospective formation of a new CB and abandoned the coalition (E/VA 49; Campbell and Sherrard, 1968: 135).

The Geneva Protocol was signed on September 15, 1927 (*Financial News*, 22/7/1927; League of Nations, 1927, Annex III: 24-27; Annex IV: 28-40). It outlined the necessary reforms Greece was expected to undertake and established a legal framework for a stabilisation programme worth no more than £9 million (League of Nations, 1945: 16-20). Out of this, £3 million was allocated for settling refugees, clearing budgetary arrears, and establishing a new central bank. The Greek government was required to keep budgetary expenditure below 9 billion drachmae until 1930 (League of Nations, 1945: 19).

The Protocol also required rigorous monitoring; Greece had to submit budgetary reports every three months for three years. Greece had to submit quarterly budgetary reports for three years. The government committed to various short-term obligations and advances, as well as treasury bills totalling 800 million drachmae, and was required to establish a new accounting system aligned with the principle of "budget unity" (BoE Archive, OV9/190/1; OV9/190/93; 927). The Geneva Protocol paved the ground for establishing the BoG, a CB with modern covenants that stood out for their emphasis on autonomy (League of Nations, 1927: 7; *The Economist*, 19/10/1929; *Financial News*, 25/11/1929).

Figure 3.4: Greek fiscal data & defence expenditure (1913-1935) (in millions of drachmae) (1913=100)



Adapted from: SEEMHN 2014.

The NBG maintained its commercial operations but had to surrender its issuing rights, assets, and liabilities to the BoG (IA/ETE $A_1\Sigma_{18}Y_1\Phi_{147}$; IA/ETE, A $_1\Sigma_{18}Y_2\Phi 8$). After the Protocol was signed, Finance Minister Kafandhares presented the national budget to the Greek Parliament (Agrafiotis, 1983: 185–186; NBG, 1928). **Figure 3.4**, above, illustrates that Zaimes' Ecumenical government balanced the budget by freezing its expenditure and raising taxes, resulting in a real budgetary surplus for the first time since the early 19th century (BoG, 1934; NBG, 1934; Charitakes, 1939: 192-193; Psalidopoulos, 1989: 84).

Following the Geneva Protocol's signing in December 1927, Greece and the LoN agreed on a second loan of £9 million (Christodoulopoulos, 1930: 120-121; Vouros, 1938: 10-14), which facilitated Greece's re-entry into international capital markets (League of Nations, 1927: 16–20; L.N./S, Box 18, S122; Zolotas, 1928,1929). Although the drachma was 95% below its pre-war value (see Appendix, Figure 5), Greece fulfilled the preconditions for adopting the GES. On May 12, 1928, the drachma was pegged the pound-sterling at 375 drachmae per pound (BoG, 1929: i), and the Bank of Greece (BoG) began operating two days later (Kostis, 2003: 279). The establishment of the BoG was seen as a "necessary evil" imposed by foreign creditors by the Greek political and banking systems (FO371/12918/C78401, Finlayson to Niemeyer, 3/8/1928). Horace Finlayson, the British Treasury's representative, observed this, noting that the BOG was viewed as "nobody's child" and a "pretentious exchange shop." (HA_BoE, OV9-206/2, 10/10/1928). This antagonism was further exemplified when a senior NBG official threatened to attack the BoG's premises if it continued expanding its branches and "competing in the foreign exchange market" (IA/ETE, Tsouderos to Niemeyer, 6/6/1928; Venezis, 1966: 63). Zaimes' Ecumenical government faced a critical setback when PM Venizelos withdrew the Liberal Party's participation in the coalition (see **3.3.I**), opposing the decision to transfer the NBG's note-issuing rights and currency reserves to the BoG, which is known as the "golden covers dispute" (IA/ETE, A_1 Σ_{18} Y_2 $\Phi 8$; HA BoE OV9-206, Finlayson to Niemeyer, 03/08/1928), which led to the Ecumenical government's collapse in late-May 1928 (Kostis, 2003: 400-405).

Although the BoG's creation was a crucial milestone for Greece, it resulted from externally-imposed conditionalities rather than a domestic-led initiative. The hostility the BoG faced heightened in the 1930s, despite the cross-party consensus favouring stabilisation. However, between 1928 and 1932, Greece enjoyed an unprecedented economic stability period, which Venizelos called "four golden years" (Kostis, 1986: 46-48), which were impeded by the severe consequences of the post-1929 Great Depression. The agreement on the second LoN loan paved the way for significant foreign direct investment, discussed more analytically in the following section (see Appendix, Figure 4).

3.1.V Conclusion

3.1.I focused on the monetary and financial legacies Greece inherited from the 19th century. Also, it critically engaged with the country's external dependence and Greece's onerous debt overhang (see **1.3.II**). By delving deeper into Greece's precarious economic situation and constraints, I emphasised that the imposition of the IFC and the sovereignty-inducing conditionality Greece had to comply with illustrated its poor *credibility* as a *serial defaulter*.

3.1.II focused on the adverse effects of the macroeconomic turbulence Greece experienced during the 1920s and the country's desperate need for foreign financing. In addition to emphasising Greece's inherent lack of *credibility*, it also covered the innovative monetary measures that Greek Governments resorted to in 1922 and 1926 to cover the Greek state's skyrocketing expenditure. By adopting Kindgdon's Multiple Streams Framework, the section analysed the *critical juncture* considering the interaction between the problem, policy, and politics streams, arguing that the confluence of these streams – problem(s), policy, and politics, facilitated a paradigm shift in Greek political economy from 1926 onwards, which is more analytically examined in **3.1.IV** and **3.2.I**.

3.1.III investigated the international context surrounding the Greek-specific setting, critically engaging with the strengths and weaknesses associated with the GS. It summarised the efforts by international policymakers to restore the pre-war international monetary and financial order. In addition to summarising the underlying policy prescriptions encompassing the CB orthodoxy – the so-called ‘canon of the times’, and how Greece marked an outlier, it also looked at the stabilisation programmes sponsored by the LoN during the end of the 1920s and the core features surrounding the establishment of the GES. It concurs with Eichengreen that GES was characterised by a deflationary bias, which resurfaced with a vengeance in the post-1929 period.

3.1.IV engaged with the country’s negotiations with the LoN for a stabilisation loan and the *conditionalities* of the Geneva Protocol, such as establishing a modern CB. It argued that as a “good housekeeping seal of approval” (Bordo and Rockoff, 1996: 389), the decision to “tie the country’s hands” to an external anchor – the GES – had a three-fold impact. *First,* it allowed Greece to generate *credibility* (see **1.2.II**); *second,* it triggered a *paradigm shift* in economic policy, prioritising foreign borrowing and productive investments; and *third,* it generated a spirit of economic euphoria, which was not immediately dispelled by the Great Crash of 1929, something which the next section turns its attention to.

3.2 The Outbreak of the Great Depression & its Aftermath

This section investigates the outbreak of the inter-war financial crisis (1929-1932) and engages with the measures Greek policymakers took in response to the downturn.

Specifically, I address the following research questions:

- **SQ2** *How did the economic crisis of the 1930s manifest itself domestically and internationally?*
- **SQ3** *How did Greece’s international creditors respond to the country’s economic predicament, and what was their underlying recipe to mitigate the effects of the crisis?*

This analysis offers insights which will be analysed more comparatively in Chapter 5 (see **5.2.II**), addressing the fundamental research question (RQ) guiding this thesis:

RQ Which factors shaped Greece's immediate response to the post-1929 and post-2008 economic crises?

3.2.I traces the propellants and international transmissions of the 'Great Crash' and summarises the different answers that the literature has given on the causes of the Great Crash of 1929. It adopts a critical perspective questioning the degree to which the Depression of the 1930s can be considered a direct consequence stemming from the collapse of the US Stock Market. It concurs with James (2009: 36) that while the Great Crash has been widely understood as the "exacerbating factor" (Galbraith, 1956: 76), it should not be understood as the cause of the subsequent Depression, stressing that the Crash of 1929 exposed the more deeply entrenched structural problems characterising the international financial, monetary, and economic systems. It also analyses the endogenous and exogenous factors responsible for the Greek economy's relatively mild exposure to the shock. It argues that Greek policymakers underestimated the repercussions of the shock, leading to complacency and crucial policy errors – also known in the scholarship as *disaster myopia* (Guttentag and Herring 1986: 2).

3.2.II discusses the most significant events of the Great Depression, including the collapse of Austria's Creditanstalt, Britain's departure from the GES and the challenges the *sudden stop* in international capital markets posed to Greece's efforts to maintain stabilisation. This section examines Greek policymakers' efforts to maintain stabilisation, which is described 'battle of the drachma' and their attempts to obtain an international loan in 1931, which led to the drachma's devaluation – and default. It also explores the political economy surrounding the evolution of the crisis and outlines the response devised by policymakers in the Greek-specific and global settings. This thesis concurs with Fishback (2013) that policy errors should be understood as both a cause and consequence of the Great Depression, as they contributed to the onset of the crisis and hindered the recovery process.

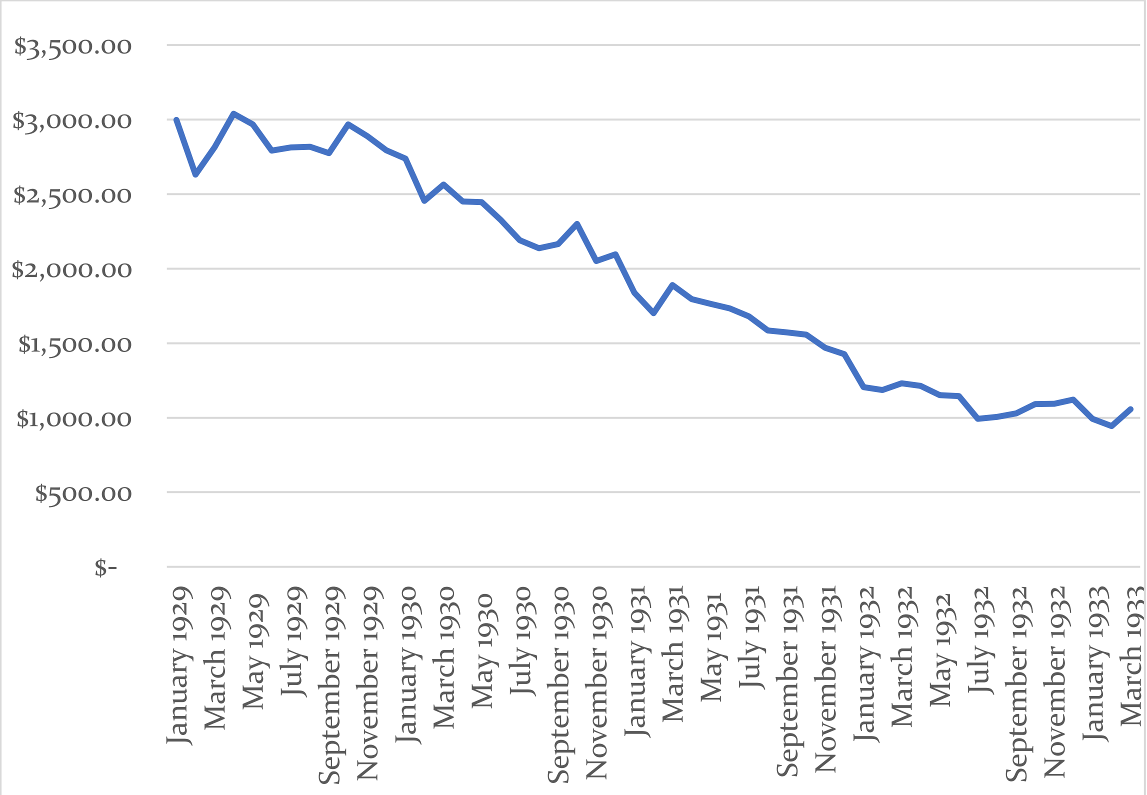
3.2.III briefly summarises Greece's debt negotiations with its creditors and the key elements of the 'Varvaressos Agreement'. Moreover, it critically evaluates the relative robustness characterising the economic upswing which ensued and concludes by arguing that political rather than economic factors were principally responsible for Greece's failure to adjust to the changing international circumstances. The underlying argument presented here is that the decision to adopt a nominal external anchor and re-peg the drachma to a fixed exchange rate in 1933 was not merely symbolic but was a by-product of the paradigm shift that occurred in economic policy that had materialised in the 1920s, prioritising the adoption of stabilisation (see **3.1.II**).

3.2.I The Crisis Explodes – The 'Great Crash' & its Ramifications

The initial stage of the Great Depression in 1929 was shaped by the deflationary pressures the gold exchange standard (GES) incited, which led to high-interest rates, and diminished consumer confidence and investor trust (Eichengreen, 1992: 213-216). The adoption of the GES led to speculative attacks and increased borrowing costs, further exacerbating the situation (Calomiris, 2010: 42-44). When the American economy entered a cyclical recession, a liquidity panic occurred in the Autumn of 1929, which halted international capital flows (Hoover, 1955c: 50; Aliber and Kindleberger, 2015: 15).

The stock market crash, epitomised by 'Black Thursday' and 'Black Tuesday', saw a 183-point drop between early September and mid-November 1929 (Gover, 2005: 239; Library of Congress, 2020). This event coincided with a 20% decline in share prices and a collapse in global investments between 1929 and 1930 (League of Nations, 1945: 85; Kindleberger, 1986: 112). As illustrated in **Figure 3.5** below, between 1929 and 1933, the global trade volume plummeted by approximately 70% (Eichengreen and Irwin, 2010: 215).

Figure 3.5: The downturn of International Trade (January 1929–March 1933) represented in millions of $ (USD)



Adapted from: League of Nations (1934: 51); Kindbleberger (1974: 172).

The Great Crash of 1929 and the subsequent Great Depression remain subjects of debate. Krugman (2001: 36) captures the complexity and interconnectedness of the factors involved highlighting that "the Great Depression had no obvious cause at all." Various perspectives have emerged to understand the economic downturn and its far-reaching consequences.

First, Galbraith (1954) argued that the Great Crash and Depression resulted primarily from unchecked stock market speculation, which led to a market bubble as evidenced by a 300% rise in the Dow Jones from 1924 to 1929 (Galbraith, 1955: 169). Critics, however, claim that Galbraith overly focused on the US, neglecting the wider global context (Romer, 1993: 3-6).

Secondly, Kuznets (1952) and Kindleberger (1973) highlighted the structural imbalances of the 1920s international economy. They proposed that the concentration of wealth and wage stagnation, with the top 0.1% of American families holding 25% of total wealth in 1929 (Kuznets, 1952: 14; Piketty, 2014: 162), reduced the demand for goods and services, rendering the global economy susceptible to shocks such as the 1929 crash. This perspective underscores that economic imbalances reinforced the crisis and its subsequent impact on the global economy.

Third, Friedman and Schwartz (1963) ascribed the Crash to a sudden money supply contraction that triggered widespread banking failures, with the US money supply decreasing by 31% between 1929 and 1933 (Friedman and Schwartz, 1963: 299). This view is disputed, with some scholars blaming monetary policy failures (Temin, 1989: 7-9; Meltzer, 2003) and others attributing it to the collapse of the banking system (Bernanke, 2002).

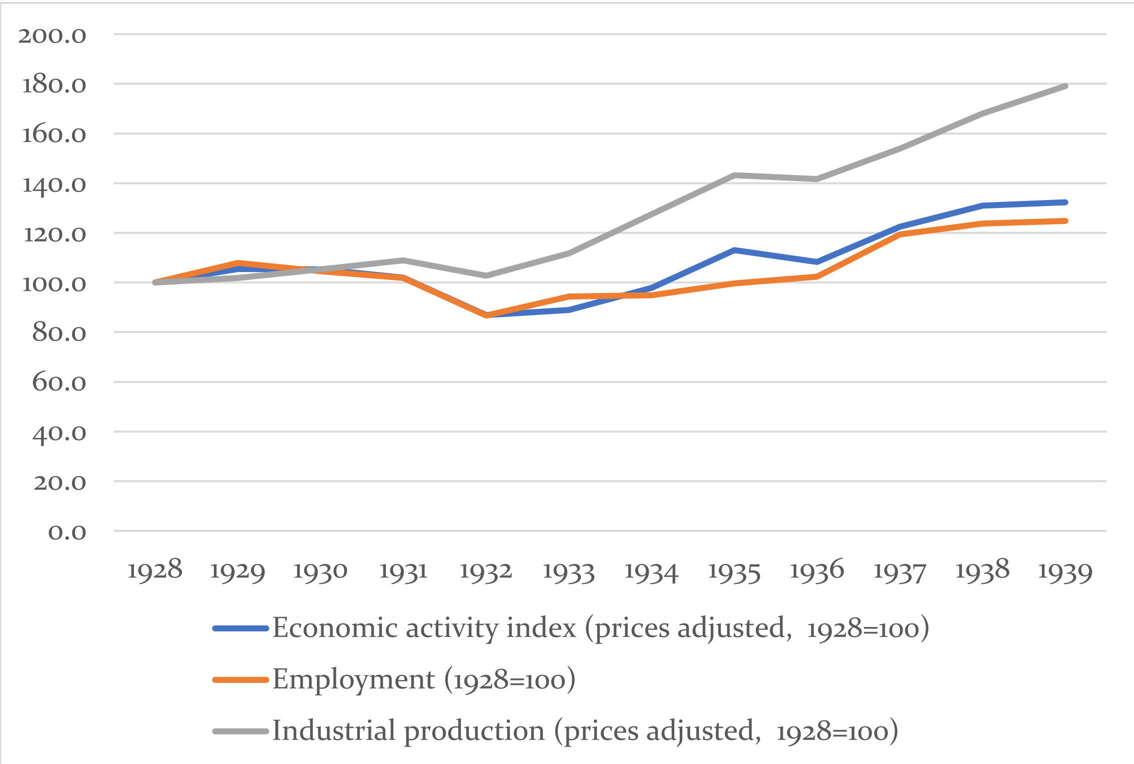
Fourth, Eichengreen (1992, a) echoed Fischer's (1933: 47) assertion that the deflationary bias of the gold exchange standard (GES) exacerbated the Great Depression, with world prices plunging by 33% between 1929 and 1932. However, Calomiris and Mason (2003) countered this by emphasising the interconnectedness of the global banking and financial system.

Fifth, the interdependence of financial and banking systems in the 1920s was a crucial factor in the propagation of the 1929 Crash. The fragile US banking system and the interconnected financial system exhibited serious structural issues (Mishkin, 1978: 125-148), underlining the role of financial institutions in the global economic downturn (Kaminsky and Reinhart, 2000: 473-500).

The discourse surrounding the causative factors of the Great Crash of 1929 and the ensuing Great Depression is multifaceted, encompassing an array of potential triggers such as war-induced debts, structural economic imbalances, trade policy frameworks, as well as issues concerning the gold exchange standard (GES) intricately tied to banking concerns (Vague, 2019: 29). A nuanced comprehension of these cataclysmic events demands an integrative approach, acknowledging the intricate web of these factors. While the stock market crash laid bare and amplified pre-existing structural frailties, it is crucial to recognise that no singular interpretation can sufficiently encapsulate the economic phenomena that unfolded during the 1920s and 1930s.

During the immediate outbreak of the Great Crash, Greek policymakers and observers did not anticipate the crisis to affect the Greek economy, attributing their confidence to stabilisation, gold convertibility, and the Liberal Government's economic programme (Banque d' Athènes, 20/9/1929: 1539-1542; Gazette of Parliamentary Minutes, 2/12/1929: 175-177; 9/12/1929: 176-196). **Figure 3.6** illustrates the Greek economic activity, industrial production, and employment, which were virtually untouched. However, as shown in **Figure 3.7**, the rapid contraction of Greece's foreign exchange reserves signalled the effects of the Crash, with the BoG suffering net losses of 1.1 billion drachmae in 1929 (*Peitharchia*, 19/12/1929; 23/2/1930; 7/12/1930)

Figure 3.6: Economic activity index (prices adjusted, 1928=100), Industrial production & employment

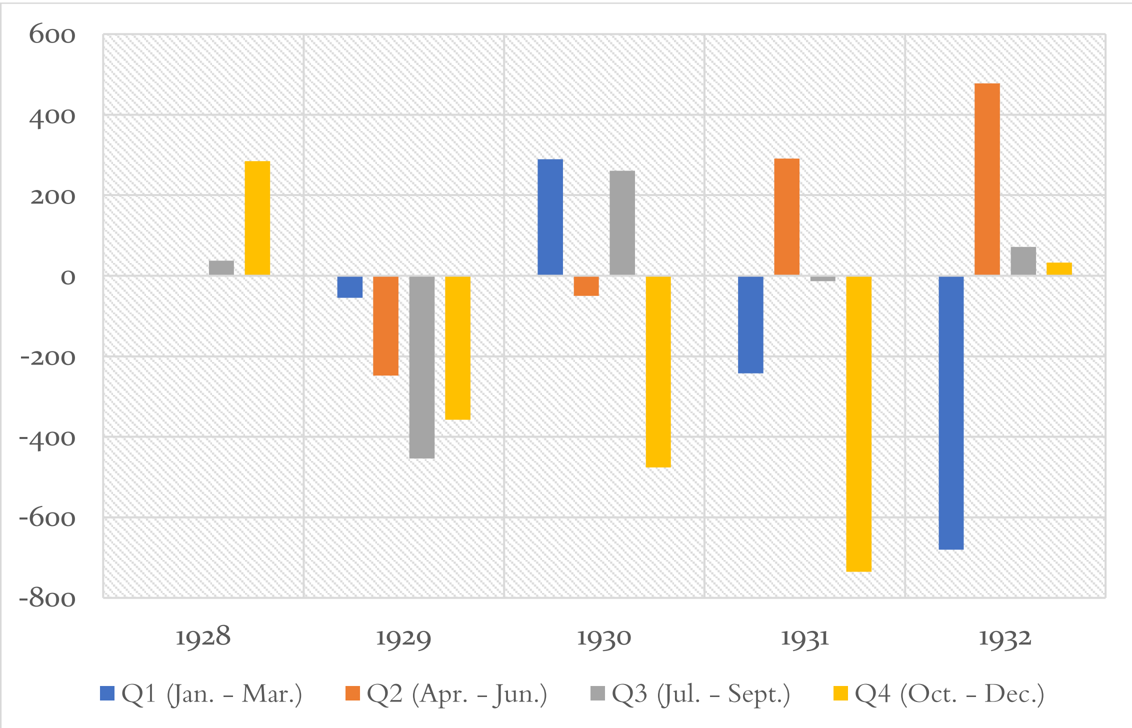


Adapted from: BoG (2014).

Responding to this, the BoG contracted the money supply by 0.5 billion drachmae to comply with its founding statutes and preserve gold convertibility

(Psalidopoulos, 1989: 86). This decision, however, adversely affected the economy, particularly the banking sector, with five banks closing in the latter half of 1929 (BoG, 1930: iv; 1931: x). Despite calls for an increase in the money supply (*Peitharchia*, 29/12/1929; 19/1/1930), the government dismissed such suggestions as "disadvantageous" and "counterproductive" (*Ploutos*, 21/12/1929: 1-3; *Peitharchia*, 12/1/1930: 28-29; 9/2/1930: 1), emphasising the importance of adhering to the monetary stabilisation rules (see **3.1.III**), arguing for the continued adherence to the rules monetary stabilisation envisaged. As an external anchor, adopting a fixed exchange rate was crucial for building credibility in international markets and attracting capital to finance the country's 'productive works' (BoG, 1930b: 14).

Figure 3.7: Foreign Exchange Movements at the BoG: 1928-1932 (quarterly figures in mil. drachmae)



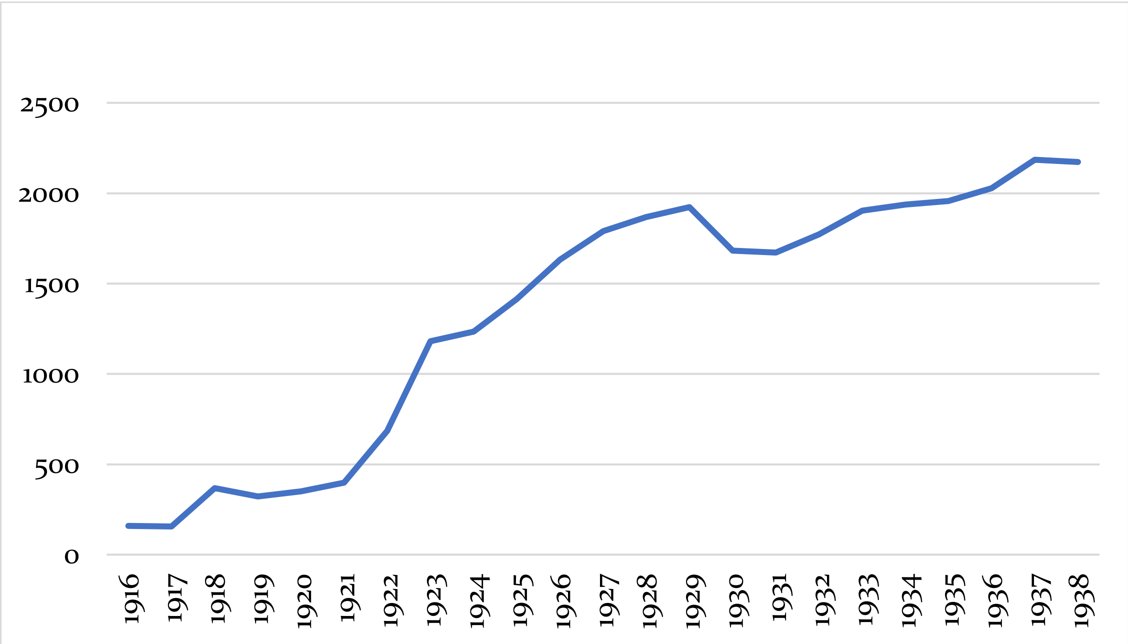
Adapted from: (BoG, numerous years); Kostis (1986: 139).

While the effects of the Crash initially manifested themselves in the Greek balance-of-payments and currency exchange, their impact on the economy's productive spheres was marginal (Diomedes, 1933; BoG, 2009: 33). Factors such as the continuous inflow of emigrant remittances until 1931 helped disguise the global slump's effects on Greece's current account (General Statistical Agency of Greece, 1934: 202-203; Vouros, 1938: 24-32; see Appendix, Figures 4, 14 and 16).

In retrospect, however, the Greek authorities seemed oblivious to the strains of the international economy, as if Greece were impervious to the downturn (see Appendix, Figure 11). Despite the surge in import consumption, PM Venizelos insisted there was "no reason to panic" (*Peitharchia*, 19/1/1930; Banque d' Athènes, 20/1/1930: 1640-1643; A/EV 343, Koryzis – Venizelos, 12/06/1931). Finance Minister Maris underscored that Greece did not manifest other countries' "mournful indices" (Banque d' Athènes, 10/1/1931: 1893). The BoG assured that the drachma's peg to the pound would remain "unimpaired and undisturbed" (IA/ETE, A1Σ22Y6Φ10, Annual Report to the Governor of the BoG, 6/4/1929: 226; HA_BoE, OV9-192/2, Memorandum, 2/10/1930; OV80/4/107b).

These statements highlight a collective underestimation of the vulnerabilities Greece experienced amidst an anomalous international economic environment. The government's failure to implement countermeasures or prepare for potential economic shocks underscored this lack of foresight, ultimately heightening Greece's susceptibility to the global crisis.

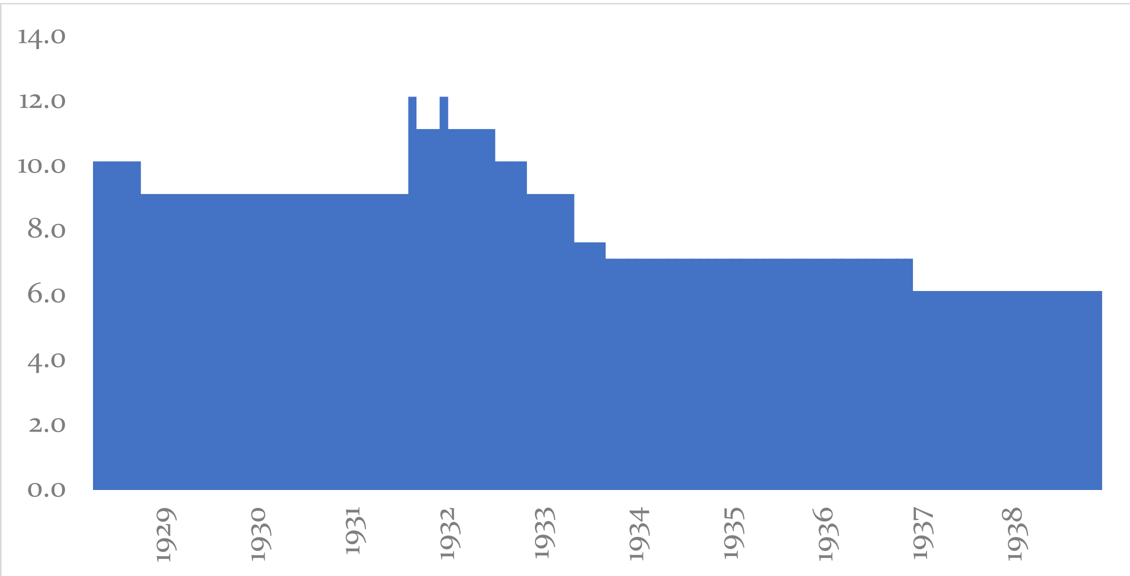
Figure 3.8: The Greek General Price Index 1916-1938 (1914=100)



Adapted from: BoG (2019: 395); Psalidopoulos (1989: 498).

In 1929, the Greek economy experienced positive developments, including new firm establishments and increased horsepower performance. However, by 1930, the downward trend in industrial activity continued (Charitakes, 1939b: 192-193; Greek Ministry of National Economy, 1931). **Figure 3.8,** above, demonstrates that by the end of 1930, Greek prices were approximately 10% below their stabilisation levels in 1928 (General Statistical Agency of Greece, 1931: 263). In response to capital flight, the BoG tightened the credit market. The Liberal Government and commercial banks criticised the BoG for "suffocating the economy" and called for a reduction in the discount rate (Gazette of Parliamentary Debates, 2/12/1929: 95-112; HA_BoE, OV9-207/1, Finlayson to Niemeyer 3/12/1929). Due to the decline in the 'cover ratio' (see Appendix, Figures 4 and 17), the League of Nations Financial Committee (LNFC) chided the BoG of "sleeping on duty" (HA_BoE, OV9-192/70, Interview Notes, Niemeyer, 25/1/1930). **Figure 3.9** illustrates that the BoG had kept the discount rate at 9% from late-1928 until September 1931. From 1930 onwards, Greece's international creditors (i.e., London and Geneva) recurrently highlighted the need to tighten domestic credit.

Figure 3.9: The BoG & the Greek Discount Rate (1929-1938)



Adapted from: SEEMHN (2014).

Although 1930 proved to be a turbulent year in Greek financial history, in September 1930, the Liberal government pledged to continue the 'productive works' programme, and initiate additional projects, expressing confidence in securing the necessary funding from abroad; as PM Venizelos put it: "We will find the millions that are needed to fund them" (*Oikonomikos Tachydromos*, 10/10/1931). This optimism was also shared by the CB (IATE $A_1\Sigma_4Y_3B_{10}$; NBG, 1930: 11 and33). Vice-Governor Tsouderos anticipated a global economic rebound, highlighting the "crisis is behind us" (IA/ETE, A1Σ4Y3B11, 1930: 717-719), while the BoG's annual report praised the balance sheets' "exemplary order" and Greece's financial standing (BoG, 1930: 12; 2019: 87; IA/ETE, $A_1\Sigma_4Y_3B_{11}$, Annual Report, 1930: 11). The next section considers the second stage of the crisis, which unfolded in 1931.

3.2.II Facing the Music: Greece's 'Battle of the Drachma' – Devaluation & Default

The previous sub-section covered the first stage of the outbreak of the post-1929 crisis. While covering the debate on the causes of the Great Crash, I stressed that many factors, including stock market speculation, structural imbalances, monetary policy failures, and the GES, caused it. I also engaged with the effects of the Crash on the Greek economy, highlighting that despite the initial confidence in the economy's resilience, the BoG's foreign exchange reserves rapidly contracted. I argued that adopting monetary stabilisation and the GES in 1928 masked the economy's vulnerability within an unstable international economic environment and that the Greek authorities underestimated the economy's exposure to the shock.

This sub-section turns its attention to the second stage of the crisis, which saw the transformation of the post-1929 from a largely isolated American phenomenon to a global crisis. The argument is that the deflationary pressures induced by the GES exacerbated the effects of the crisis, and in hindsight, its collapse was inevitable.

In 1931, the GES's deflationary pressures of the GES led to a rapid decline in global commodity prices, triggering an agricultural crisis (League of Nations, 1931: 253; *The Economist*, 17/2/1934: 21) that severely impacted agrarian economies, like Greece, which saw its export revenues plummeting significantly. Policies to uphold gold convertibility increased sovereign debt, endangering the European banking system. This, coupled with the collapse of Austria's largest bank, *Creditanstalt* (*The Economist,* 27/6/1931: 1326; 4/7/1931: 1619; 1271), instigated a worldwide banking crisis (Kindleberger, 1986: 148; Eichengreen, 1996: 265-275; Capie, 2013: 144; Crafts, 2013b: 2). **Figure 3.10** illustrates that the banking crises were not strictly a European but, in fact, a global phenomenon. In the summer of 1931, the *credit boom* of the late-1920s reversed into a *credit crunch*, which brought the international financial system to a standstill (James, 2010: 130; *Project-Syndicate*, 21/9/2007; Ritschl and Sarferaz, 2014: 350).

Figure 3.10: Banking Crisis during the Inter-war Period

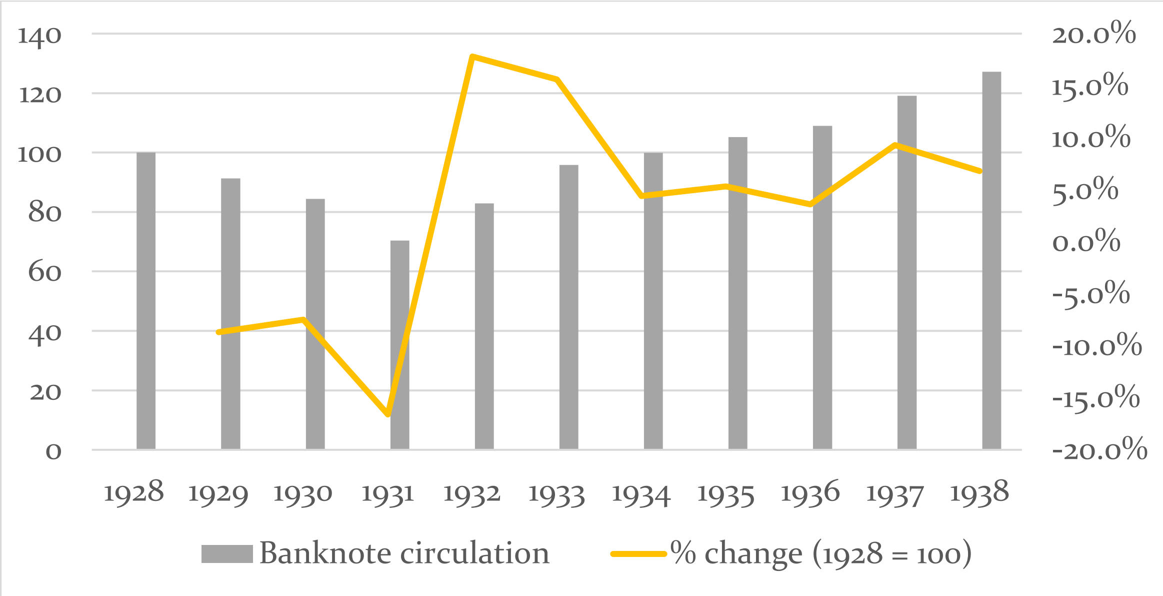
Inter-war Banking Crises (1929-38)			
COUNTRY	**YEAR(S)**	**COUNTRY**	**YEAR(S)**
Argentina	1931; 1934	Italy	1930-1; 1935
Austria	1931-2	Latvia	1931
Belgium	1931; 1934	Norway	1931
Brazil	1931; 1937	Poland	1931
Denmark	1931	Portugal	1931-2
Estonia	1930-2	Romania	1931
Finland	1931	Spain	1931
France	1930-2	Sweden	1931-2
Czechoslovakia	1931	Switzerland	1931
Germany	1931	Turkey	1931
Greece	**1931**	United States	1930-3
Hungary	1931	Yugoslavia	1931

Adapted from: Crafts and Fearon (2013: 20).

Despite the BoE's inviolable support for the GES (see **3.1.III**), the double-dip recession in Britain led to the pound's devaluation, on 21 September 1931, by 25% (Cairncross and Eichengreen, 2003: 30; Crafts and Fearon, 2010: 289). Britain's decision to abandon the GES (see Appendix, Figure 7) negatively affected the periphery's capital-importing countries (i.e., Greece), whose currencies were pegged to the pound sterling (Pyrsos, 1946: 101). Although 25 countries followed Britain's lead, devaluing their currencies, Greece fixed the exchange rate at 77.05 drachmae per US dollar, which remained tied to gold (IA/TTE-$A_1\Sigma_1Y_1\phi_{184}$ 'Repegging the drachma", Minutes of General Council Meeting, 29/9/1931).

Tsouderos (BoG Report, 31/12/1930) admitted that Britain's departure from the GES was "the strongest possible shock", highlighting that the BoG experienced a drain, or capital flight of approximately 174.4 million drachmae, illustrated in **Figure 3.11,** below (Psalidopoulos, 1986: 88). Moreover, the Athens Stock Market, experienced significant losses and suspended its operations for 15 months (see Appendix Figure 4). Given this, the Greek authorities enacted the so-called 'currency protection laws' (Greek Government Gazette A 335, 28/9/1931; A 354, 8/10/1931; and A 29, 2/2/1932), imposing restrictions on the currency exchange, or capital controls to limit the capital flight and maintain stabilisation, which led to PM Venizelos' decision to force Governor Diomedes to resign (*HA/EV,* Diomedes to Venizelos, 28/9/1931 folders 284-264 and 343-359; *Proia*, 28/9/1931: 1).

Figure 3.11: Banknote Circulation in Greece (1928–1938)



Adapted from: Lazaretou (2014).

Despite these measures, Greece's currency reserves declined by around $3.6 million in a week (Psalidopoulos, 1989: 88; Kakridis, 2021: 4). The BoG increased the discount rate to 12% to counter the effects of capital flight (see **Figure 3.9**, above), while the currency controls slowed the outflows, they affected remittances and other invisible inflows, leading to a current account deficit and a widespread expectation of the drachma's imminent devaluation, which traded at a substantial discount on the black market.

The costs of Greece's debt servicing and imports absorbed more foreign currency than sources such as exports, emigrant remittances, and invisibles could provide, revealing Greece's severe balance-of-payments problems (or more on this, see Appendix, Figures 4 and 11) (BoG, 1933). By the end of 1931, it became clear that a new foreign loan was the only solution to avert the country's default. However, the international banking crisis and Britain's departure from the GES had created a precarious climate in international capital markets, captured by Fishlow (1985: 42), who argued that: "The entire system failed […] capital markets had essentially ceased to operate".

Against this background, the Greek economic strategy, relying on foreign loans to finance domestic expenditures such as the so-called 'public works', was no longer viable. Despite PM Venizelos's reassurances of a forthcoming international loan, European policymakers remained hesitant to disburse financial rescue packages (IATE $A_3\Sigma_1Y_2\Phi_{165,}$ LNFC 44th Session, 11/01/1932: 11; HABoG $A_3\Sigma_1Y_2\Phi_{165}$/1, Niemeyer - Tsouderos, 22/12/1931). Leith Ross, a representative of the British Treasury, considered Venizelos' proposals to be "quite impossible" (HA_BOE, OV80-6/18, Chamberlain-Venizelos, 28/1/1932), illustrating how European policymakers hesitated to provide financial support to Greece.

PM Venizelos visited numerous European to seek concessions from the European Governments on an LNFC-sponsored loan (IATE 56/2, LNFC, 44th Session 11/01/1932,2: 32; HA/EV 345, Niemeyer – Venizelos 29/02/1932). Notably, Sir Otto Niemeyer advised the Greek PM to avoid "monkeying around", downplaying Greece's predicament compared to other nations (HA_BoE, OV80-6/5, Niemeyer to Loveday, 26/1/1932; OV80/6-17, Niemeyer to Loveday, 29/1/1932). The LNFC did not foresee the suspension of Greece's foreign debt payments to generate fears of contagion (IA/ETE, $A_3\Sigma_1Y_2\Phi_2$/3, Tsouderos to Venizelos, 12/3/1932).

By March 27, Greece's reserves in convertible currency, mandated to be 40% by the Geneva Protocol, had plunged below 27% (*Eleftheron Vima*, 20/3/1932: 1; IA/TE, 65/20, Finlayson – Venizelos 10/02/1932), foreshadowing a "twin crisis" (Krugman, 1998), involving a currency and banking crisis. While the LNFC, in principle, pledged to disburse a loan of $10 million, it fell short of Venizelos' $50 million request (IA/TTE, $A_3\Sigma_1Y_2\Phi_{64,}$ 24/3/1932: 3; 62/9, 'Unofficial Notes from Meeting in Geneva', 13/4/1932).

The LoN offered Greece a $10 million loan, conditional on implementing fiscal consolidation measures (i.e., tightening fiscal policy) and a provisional debt moratorium. To improve the budgetary situation, France's representative at the LNFC, André Meyer, suggested that the Greek government should lay off civil servants, reduce salaries by 20%, and shut down several schools (IA/TTE, $A_3\Sigma_1Y_2\Phi_2/_3$, Tsouderos to Venizelos, 12/3/1932). However, the government, which faced impeding elections, rejected such measures. In April 1931, Greece secured a £4.6 million loan from an international bank syndicate led by Hambro's, with an effective interest rate of 7.3%, which bolstered the government's confidence (BoE_A, OV 80-4/101b, Finlayson, *Report on Recent Loan negotiations in London, 1st March-19th April, 30/4/*1931).

Greece's budgetary condition worsened despite the loan, while the BoG's weekly foreign exchange losses reached $1 million. A British diplomat observed: "It was not a question of Greece staying in gold, but the [GES] abandoning Greece" (FO 371/15960 C2951/324, Ramsay – Foreign Office, 29/03/1932, and 1/4/1932), highlighting Greece's precarious situation. As the foundations of Greece's externally financed development strategy faltered, PM Venizelos warned of the drachma's devaluation and the imposition of a debt moratorium if the LoN did not resolve the so-called "Greek problem" (HABoG, $A_3\Sigma_1Y_2\Phi_{84}/1$, Finlayson, 27/4/19323-6). While On April 15, the LoN Council acknowledged Greece's grave currency situation (IA/TE, $A_3\Sigma_1Y_1\Phi_{24}/2$, LNFC, 44th Session, 10/03/1932, *oral proceedings*: 4) but remained silent on a new Greek loan indicating the imminent of the country's default.

When Venizelos returned from Geneva, he faced political backlash for his failed negotiations. The 'battle of the drachma' reignited the passions of the 'Great Schism' and weakened the country's credibility abroad. The finance minister resigned over Venizelos' insistence on holding elections after the government's four-year term ended (*Macedonia*, 22/4/1932: 4; Daphnes 1974: 542; Dritsa, 2012: 209-210).

On April 23, Kyriakos Varvaressos became the Minister of National Economy. Between March 31, and May 31, 1932, the drachma's value deteriorated against the sterling from 305 on Mach 31, 1932, to 552, or approximately 43% below 1928-levels when the country adopted the GES (US Department of Commerce, 1935: 63-66)—*The Times* (26/4/1932) argued that the Greek default was "hardly a surprise" given the global slump's severe impact on Greece.

After the drachma's devaluation and Greece's abandonment of the GES (see Appendix, Figures 5 and 12) on April 26, 1932, Greek debt servicing costs doubled, amounting to 55% of the country's budgetary expenditure. In addition to its excessive *debt overhang* (see **1.3.I**), Greece also faced a "budgetary problem of the first magnitude" (FO 371/15963 C5970/324, 'Greek public debt and the IFC'; FO 371/15966 C4868/462, Ramsay to Simon, 5/6/1932). While state revenues fell by approximately 13% (for the collapse in national income, see Appendix, Figures 10 and 17), Greek policymakers realised that the country lacked the necessary funds to sustain domestic payments, necessitating a rethink of the economic policy paradigm.

The next section discusses Greece's negotiations with its foreign creditors on a debt settlement and evaluates the relative costs and benefits of the Greek default and the economic recovery after the country abandoned the GES.

3.2.III From Nemesis to Redemption: Greece Exits the Crisis (1932-35)

The previous sub-section engaged with the second stage of the crisis between 1930 and 1932, known as the "Great Contraction" (Vague, 2019: 31) or the "battle of the drachma" in Greek historiography (Mazower, 1991: 143-176). It highlighted that the deepening of the crisis, notably Britain's abandonment of the GES, resulted in the drachma's pegging to the dollar. Despite PM Venizelos' hope for an international loan diminishing global confidence led to the drachma's devaluation and the abandonment of the GES, which resurfaced political polarisation and adversarialism.

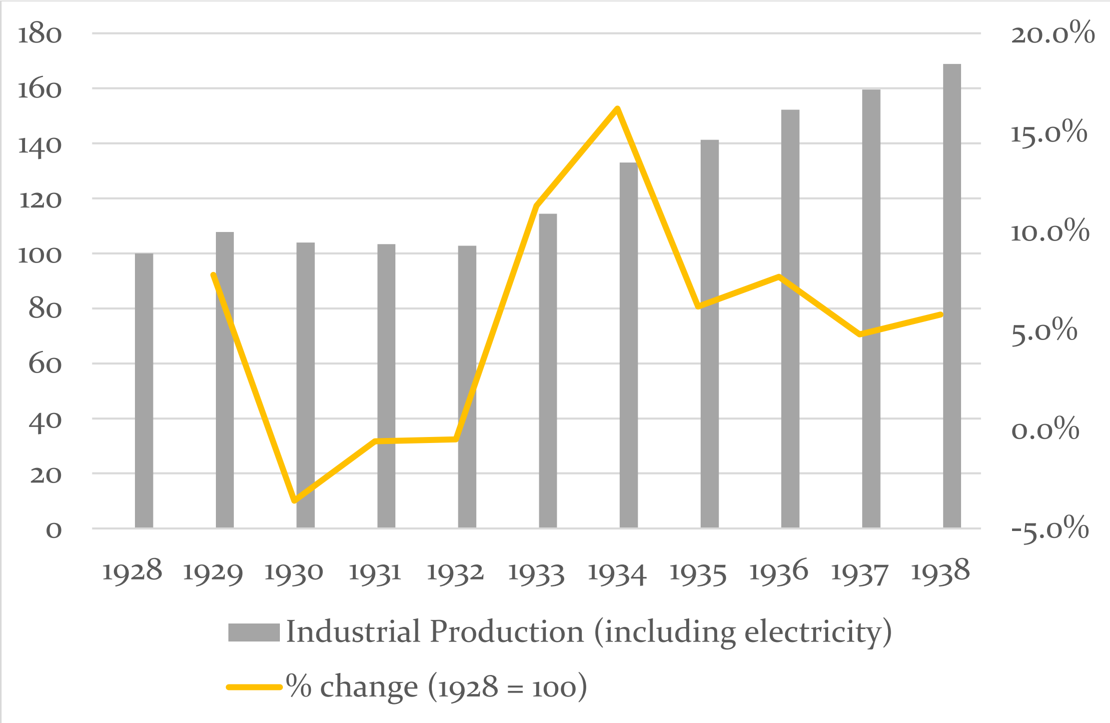
This sub-section turns its attention to the crisis' third stage, between 1932 and 1935, when the Greek economy began to recover, covers with a debt settlement with its foreign creditors or "Varvaressos Agreement", and critically engages with the costs and benefits of default, arguing that the resurfacing of political polarisation and adversarialism that severed the robust recovery. I challenge Christodoulakis' (2013) assertion of an elusive recovery and his claim that Greece marked an exception to the "golden fetters rule" (Eichengreen, 1993), which suggests that abandoning gold triggered a swift recovery, as opposed to remaining it. Instead, I argue that the country's recovery was inextricably linked to the abandonment of golden fetters, per the golden fetters rule. I argue that the political problems compounded the strains of the recovery.

The drachma's devaluation and Greece's abandonment of gold convertibility (HABoE, OV80-8/14, Finlayson, 18/08-3/20/1932, 3/10/1932; IA/ETE, $A_1\Sigma_2Y_1\Phi_4$), set the stage for the "Varvaressos Agreement" on 13 September 1932, which dictated Greece to pay 30% of its nominal interest in foreign currency to compensate the bondholders (Eleftheron Vima, 5/5/1932: 4; 19/5/1932: 4; HA_BoE, OV80-7/6, Finlayson to Niemeyer, 25/7/1932; Estia, 16/6/1932: 1). While the Debt Settlement was influenced by the looming elections, with each party pledging fewer concessions for Greece, which hindered negotiations with creditors. Sir Otto Niemeyer of the BoE noted that Greeks were "out-of-touch with reality" (HA_BoE, OV80-6/188, Finlayson to Niemeyer, 18/5/1932; OV80-6/212, Niemeyer to Finlayson, 28/5/1932). In September 1932, the political deadlock ensued, with neither the Liberal nor Popular parties forming a government until early November when Alexandros Papanastasiou temporarily became, and Panayis Tsaldares' Popular Party formed a coalition with pro-royalist forces (Gazette of Parliamentary Debates, 11/1/1933: 92-95).

The Liberal defeat was attributed to Venizelos' exaggerated claims about his rivals' efforts to reinstate the Monarchy was exaggerated (FO 371/16771/C 603/399/19, Hankey to Ramsay, 12/1/1936) and his controversial tactics, such as press censorship and a failed coup (To Vima, 22/2/1959: 1; 22/3/1959: 1). As Mazower (1991: 176) states, Venizelos' Four Golden Years "ended in anxiety rather than triumph".

While the political polarisation and instability undermined Greek credibility, after the default of 1932, the drachma's depreciation facilitated a shift towards autarky and import substitution, replacing the externally-financed development strategy adopted in 1927. This policy change (i.e., exchange controls and trade restrictions) stimulated domestic production and economic growth, leading to a full recovery by early 1933 (Evelpides, 1952: 10-29). **Figures 3.12 and 3.13** suggest that the "greenhouse atmosphere" (Zolotas, 1936: 22), devaluation, and protectionism spurred growth for Greek industrial and manufacturing production (Andreades, 1933: 191; Charitakes, 1939b: 25).

Figure 3.12: Greek Industrial Production (including electricity) (1928–1938)



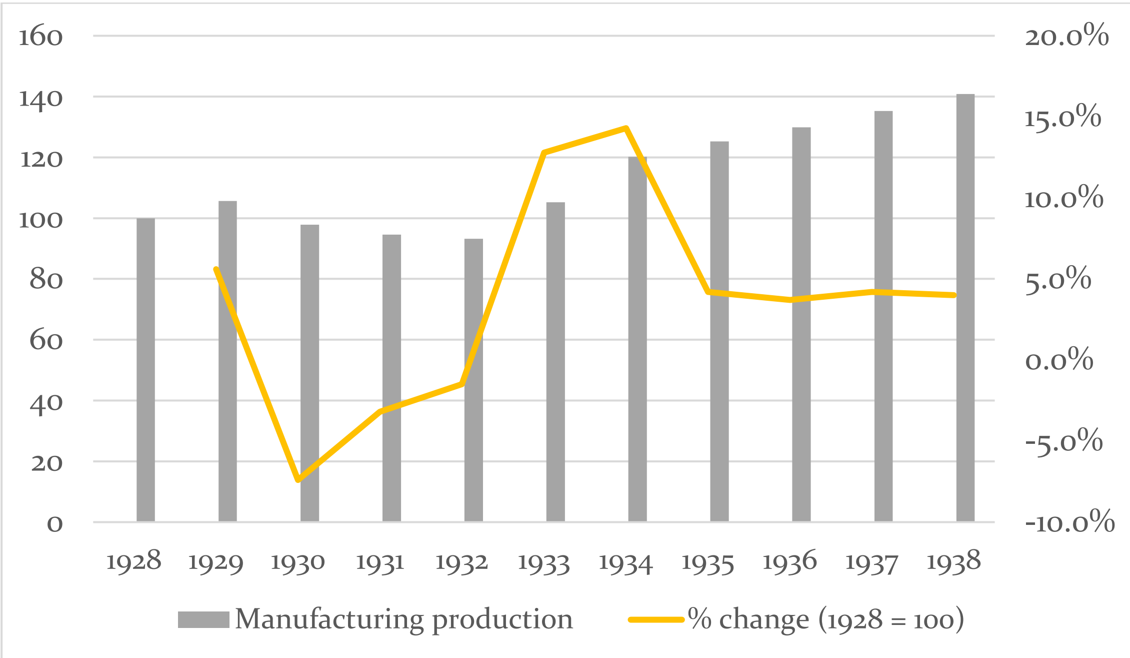
Adapted from: BoG (2014).

Figure 3.12 highlights the swift rebound of Greek industrial production in 1933, overshadowing manufacturing growth rates with an average of 8% growth until 1937 (NBG, 1940). The rapid development in traditional sectors, like textiles, rapidly developed, fuelled by oligopolistic market conditions, indicated burgeoning confidence, particularly among Greek businessmen (*Viomichaniki Epitheorisi*, 1/7/1932: 23).

Import quotas and import substitution further reinforced the positive impact of the drachma's devaluation. The suspension of debt amortisation and reduced interest payments provided budgetary relief, significantly decreasing Greece's annual debt service from 11% (1927-1931) to around 4% of GDP after 1932. However, a budget deficit emerged in 1936 due to increasing defence spending by the Metaxas government. Unable to access financial markets, Greece relied on limited domestic resources; imports contracted from around 40% of GDP in 1928 to 20% after 1932, leading to de-specialisation and a decline in productivity in export-driven industries like mining, metalworks, and tobacco.

Despite the temporary equilibrium, Greece transformed into a 'theatre' of socio-economic grievances. While historians link Greece's democracy unravelling to social divisions following the Balkan Wars and political system failures post-Asia Minor Catastrophe (Hadjivasileiou, 1936: 155; Pelt, 1988: 98), Mazower (1991: 285, emphasis on original) claims that “it was economic *growth,* which taxed the capacities of the existing system and pointed the way to an eventual realignment of political forces”. Although Greece's recovery from the post-1929 Great Depression was impressive, the long-term sustainability of the Greek economy remained precarious. **Figure 3.13** supports this, focusing on Greek manufacturing production, revealing that declining manufacturing production from 1934 onwards grew by 4%, indicating a lack of competitiveness.

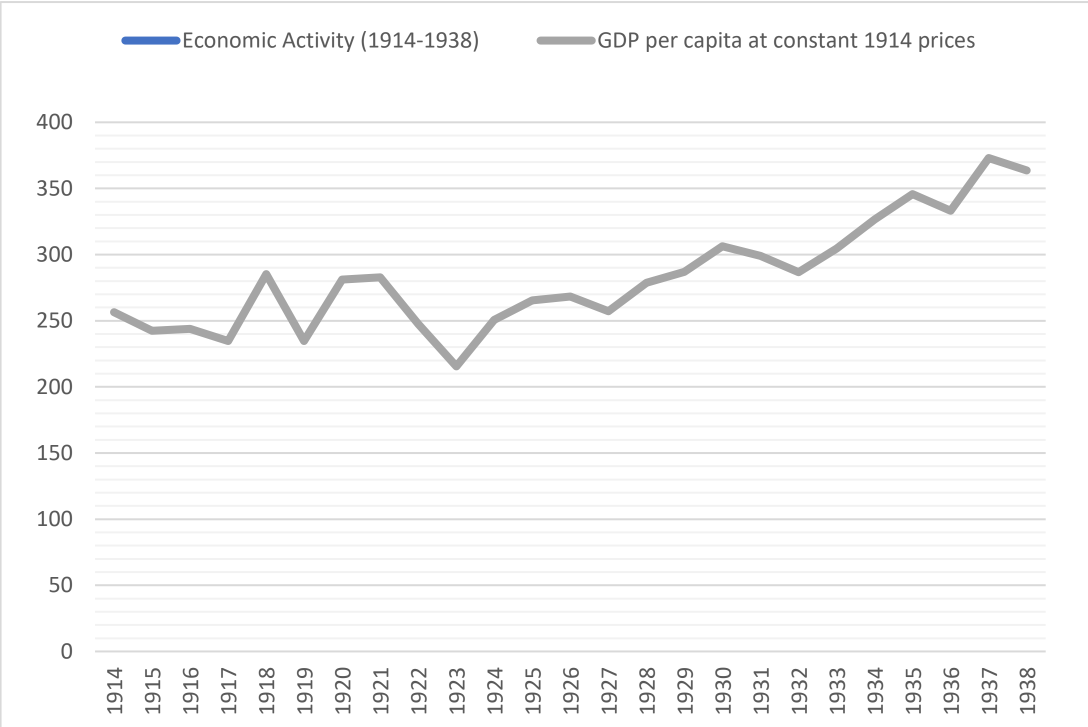
Figure 3.13: Greek Manufacturing Production (1928–1938)



Adapted from: Lazaretou (2014).

Greece’s economic expansion during the 1930s masked structural weaknesses within the economy (see **3.3**). **Figure 3.14** illustrates that Greece’s GDP per capita hardly surpassed its pre-war levels, indicating a return to normality rather than a dynamic expansion of productive capacity. Although agricultural production doubled by the decade’s end, low productivity, income imbalances and increasing unemployment continued to plague rural communities (see Appendix, **Figure 10**; League of Nations, 1939: 82; Koliopoulos, 1979: 61).

Figure 3.14: Greek Gross Domestic Product per capita at constant 1914 prices from 1914 until 1938



Adapted from: Kostelenos *et al.* (2007, Table 9–I: 217–219); Lazaretou (2014); SEEMHN, 2014, Table GR6_A: 168).

While **Figure 3.12** highlights impressive industrial growth – which was surpassed only by the USSR and Japan (League of Nations, 1938: 45) – the industry's profits failed to stimulate new investments or "productive modernisation" (Alivizatos, 1938: 518-519). The rise of protectionism favoured entrepreneurs with import licenses, but outdated machinery hampered competitiveness and job creation in the industrial sector (NBG, 1936: 29; Zolotas, 1936: 22-57), causing prices to surge, a phenomenon that was not uniform across industries, with some sectors outperforming others (Greek Chamber of Commerce, 1937: 12).

Greek inflation averaged 4.4% between 1932 and 1938; between 1931 and 1932, exports declined by 41%, while imports fell by 17% (IA/ETE, $A_1\Sigma_4Y_3B_{15}$, Annual

Report, 1934: 608; League of Nations, 1935: 74), demonstrating the challenges diversifying its exports and penetrating new markets.

Figure 3.15: Peripheral Economies & Indebtedness: the benefits of default; Savings from sovereign default

	Total savings, 1931-1935 (millions of national currency units) (ii)	(ii) as a Percentage (%) of export earnings 1931-1935 (iii)	(ii) as % of total government expenditures 1931-1935 (iv)	Date of suspension of foreign debt service (v)	Export earnings/ total value of foreign debt, 1928 - 1930 (vi)
Greece	**4,131**	**18.1**	**11.0**	**1932**	**21.3**
Czechoslovakia	–	–	–	–	356.4
Hungary	117	7.4	2.4	1931-2	69.9
Poland	–	–	–	–	67.5
Romania	11,726	19.1	13.6	1932	33.6
Bulgaria	2,323	19.3	11.1	1932	36.8
Yugoslavia	3,182	16.6	6.0	1932	545.7
Argentina	–	–	–	–	186.3
Brazil	971	6.6	7.4	1931	291.5
Chile	701	19.1	–	1931	77.1
Mexico	126	5.3	10.0	1928	53.2
Peru	97	7.6	17.3	1931	118.3

Source: Jackson and Lampe (1982: 480-481).

The political system struggled to address these issues. Unable to access external borrowing, Greek fiscal policy turned conservative, with ‘productive works’ stagnating (Psalidopoulos, 1989: 105). Under pressure from the BoE and the LNFC, PM Tsaldares abandoned plans to merge the BoG and the NBG in June 1933, reaffirming commitment to the Geneva Protocol (BoG, 1933: 31). The decision to re-peg the drachma to gold reflected policymakers' caution regarding inflation (Eichengreen, 1992: 88; BoG, 1938: 50).

Figure 3.15, above, compares the Greek default with other peripheral economies in Central and Eastern Europe (CEE) and Latin America (League of Nations, 1937: 56). Although a gap persisted between Greece's export earnings and foreign indebtedness, the default of 1932 partially bridged this divide (see Appendix, Figure 4; Tsoukalis, 1977: 26). While offering short-term relief, the Greek default did not address Greece’s underlying structural weaknesses.

3.2.IV Conclusion

3.2.I traced the structural propellants and international transmissions of the Great Crash of 1929 and the ensuing *sudden stop*. I argued that whereas the Crash has been considered the “exacerbating factor” that unravelled the Great Depression, it was more of a symptom than the *cause* of the global economic downturn. It addressed RQ2 by critically engaging with the measures – or lack thereof – undertaken by the Liberal Government and why Greece initially appeared to be shielded from the 1929 downturn, leading to complacency and a series of policy errors.

3.2.II covered the second stage of the post-1929 crisis, which unfolded in 1931. My analysis demonstrated how the Greek authorities underestimated the effects of the European banking crisis triggered by the collapse of Austria’s *Creditanstalt*. I stressed how Greece’s excessive *external dependence* adversely exposed the country to an abrupt halt in cross-border capital flows or *sudden stops*. I argue that the exaggerated confidence Greek policymakers espoused in the GES and the domestic economy resembled what economic historians describe as *disaster myopia*. In addition to analysing the wide-ranging repercussions of Britain’s departure from the GES and the 'battle of the drachma', I also covered the Liberal Government's unsuccessful endeavours to secure an international loan.

3.2.III dealt with the Liberal Government's debt negotiations with international *creditors* and critically examined the relative costs and benefits of the Greek default of 1932, combined with the drachma's devaluation. Additionally, I sketch out how the abandonment of the GES marked a *paradigm shift* in Greek economic policy, prioritising import substitution and the imposition of tariffs. While this resulted in a series of positive spillovers, the shift to autarky was a precarious task, and the successful – though partial – recovery deepened rifts that already existed within Greek society. I argue that *political* rather than *economic* problems impeded Greece's capacity to adjust to the changing circumstances, which the next section turns its attention to.

3.3 The path-dependent pathogens during the 1930s

Having gone through the period leading up to the crisis in 3.1 and the immediate to the post-1929 crisis in **3.2**, this section shifts its attention to the relevance and applicability of the five horizontal themes or path-dependent pathogens identified in **chapter 2**. This section exhibits their relevance and applicability during the inter-war episode, critically engaging. By analysing these five dimensions, this thematic appraisal will allow me to critically examine the crisis's trajectory and the resilience – or lack thereof – in the post-1929 period. I argue that the *path-dependent pathogens* were part and parcel of Greece's response to the crisis and were compounded by strains induced by the recovery.

3.3 I Cultural Dualism & Adversarialism in Greece after the Dichasmos & the post-1929 Crisis: politics trumping economics?

While the literature has extensively explored the "underdog culture" (Papacosma, 1988: 88) and deeply embedded *cultural dualism* (see **2.2.I**; **3.3.I**; **4.3.I**; **5.3.I**) (Diamandouros, 1994: 86-88), this is the first study applying the cultural dualism as a frame to examine the inter-war period. Cultural dualism is also inextricably linked to the deeply entrenched role of adversarialism and zero-sum politics, which hindered both the Venizelist and anti-Venizelist factions from reaching compromises on crucial foreign and domestic issues.

This section explores the resilience of adversarialism and the dualistic nature of Greek politics focusing on the Venizelist or Liberal and anti-Venizelist factions. The first argument is that the rift between the two poles was rooted in more deeply entrenched social, political, and economic divisions. Second, the path-dependent legacies of the cultural dualism from the early 20th century generated lock-ins of divisions (see **2.1.II**), which resurfaced with a vengeance during the Great Depression. Therefore, the resilience of adversarial and zero-sum politics arguably shaped the country's response to the post-1929 crisis. Examining the political and ideological differences between the factions and the social and cultural factors that contributed to these divisions. Third, I highlight that the frequent government changes, regime shifts, social unrest, violent riots, and censorship further exacerbated the country's *credibility*. Fourth, I stress that the Greek experience of the post-1929 period exhibited the self-mutually reinforcing relationship between economic and political crises.

The Goudi Revolt of 1909 signified a plea by military officers to reform Greece's political system and address corruption and inefficiencies (*Empros,* 15/8/1909), which was followed by a mass demonstration in Athens, marking (A/EV, *Speech in Syntagma* Square, 5/9/1910; Chronos, 6/9/1910). Venizelos' - and the military's - rise in Greek politics and his reformist objectives fuelled the emergence of new polarising social, political, and economic cleavages (Mavrogordatos and Chatziiosif, 1988: 15).

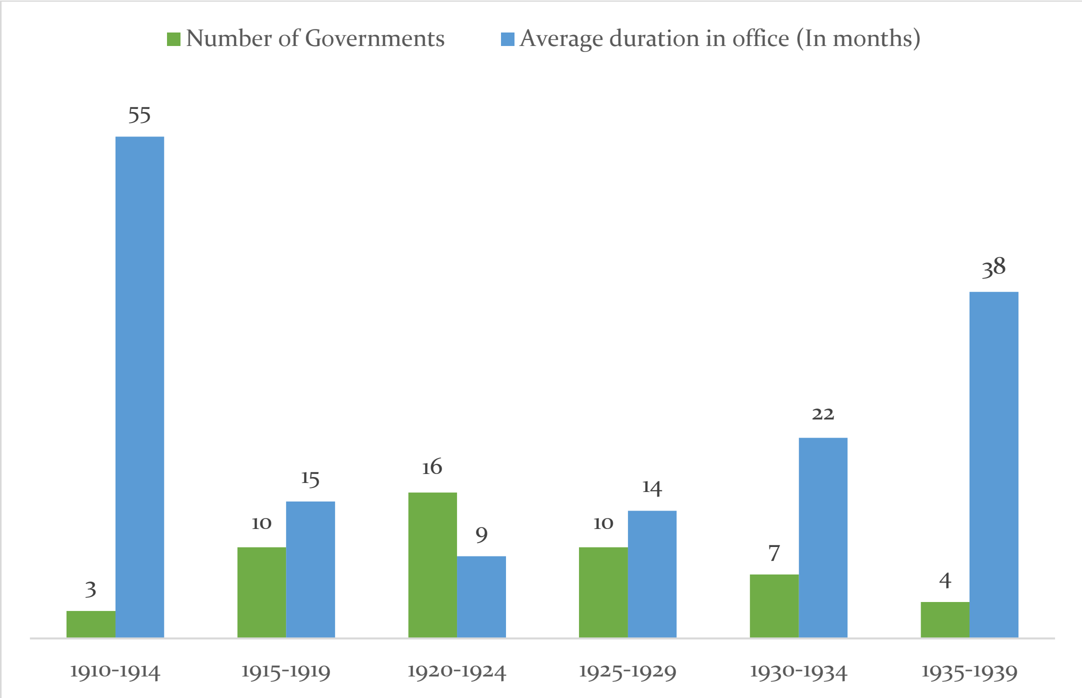
Following WWI's outbreak, Greece split into two "political worlds" (Papandreou, 1941: 81; Mavrogordatos 1983: 128), an event known as the 'National Schism' or *Dichasmos* (Mavrogordatos, 1983; 2015, 2017; Kakouri, 2017). While Venizelos favoured joining the Entente (*Parliamentary Minutes*, 13/8/1917), due to his ties to Germany, King Constantine I and the 'Old political system' maintained a position of neutrality but was seen as leaning towards the Central Powers, including Germany (Strait, 2 A': 20, 52, 88,97,98, 109; Metaxas, 1960,b: 406-413).

Despite often being reduced to the personal rift between the King and Venizelos, the Dichasmos transcended partisan lines, representing distinct value systems and radically different outlooks vis-à-vis foreign policy. While Venizelism prioritised pursuing irredentist goals, or the Megali Idea, the Germanophile King and Anti-Venizelist supporters sought a "small but honourable Greece" (Strait, 1964, 30; 34; Metaxas, 1960,d: 556; Veremis and Gardikas-Katsidakis, 2006: 119). The Venizelists, led by Eleftherios Venizelos and his Liberal Party, pursued liberal, pro-Western policies and the irredentism aspirations enshrined in the *Megali Idea* (Mouzelis, 1980: 3,7-8). The Anti-Venizelists, led by King Constantine I, and subsequently the Popular Party, held conservative, pro-Monarchy ideals, prioritising traditional values and expressing scepticism towards Western influences. Both camps engaged in Manichean antagonism and prioritised respective goals over unified responses, resulting in "two Greeces" (HA_MFA, Paul Louis Theodore Banazet to Aristide Briand, 23/10/1916: 119-220); while Venizelos' established a pro-Entente government dubbed as the "state of Thessalonica", the King established a neutral government – the "state of Athens" leaning towards the Central (*Agkyra*, 21/5/1916: 1; HA_ MFA *Diplomatic Cables* 1913-1917: 177).

Following Greece's defeat in Asia Minor, political turmoil ensued, culminating in the "Revolution of September 1922" or the "Trial of the Six" (Official Minutes *Diki ton Ex*, 1922: 95, 72; FEK A', 199/13/ 26.10.1922) when Prominent figures faced the Revolutionary Tribunal and were found guilty and executed on November 28, 1922, intensifying polarisation and instability, which resurfaced with a vengeance in the post-1929 crisis (*Kathimerini*, 28/12/1934; 29/12/1934; Daphnes, 1974: 12-14; 156). For the Anti-Venizelists the execution was a "monstrous crime" – as Tsaldares described it in 1929 – which left a severe imprint in collective memory and shaped its position towards those it held responsible (Mavrogordatos, 2015: 153). While the legal process of the trial was arguably a parody, it allowed the Greek military offices to deflect responsibility for the military defeat, shifting the blame to the political system. In 1923, the Treaty of Lausanne imposed harsh conditions on Greece, including returning territories to Turkey, relinquishing claims on Smyrna, and initiating a population exchange with Turkey (*MFA.gr,* 24/7/1923). The influx of refugees and the Megali Idea's failure fuelled disillusionment among Anti-Venizelists and the King's supporters, blaming Venizelists for Greece's misfortunes and isolation (Strait, 1964a: 54-25; Metaxas, 1960b: 340) (see **3.1.II**). The rural-based, conservative-prone, and parochialist undercurrents experienced cultural shock (*Kathimerini*, 11/1/9131: 1; *Vradyni*, 30/6/1931: 1; *Eleftheros Anthropos*, 29/2/1932: 8), questioning the refugees' 'Greekness' hurling at them, such as "Turkish seed" (*tourkosporoi*) and "Turkish-born" (*Tourkogennimenoi* and *Tourkomerites*) perceiving them as threats to the status quo (Dakin, 1982: 390).

Figure 3.16 illustrates the consequences of the Megali Idea's end and the resurfacing of dualism between the Anti-/Venizelists, highlighting the high frequency of governmental changes in Greece during this period. Between 1920-1929, over twenty government changes occurred, with no administration lasting more than two years. This political instability resulted from the deeply entrenched divisions and the inability to cooperate or compromise. Additionally, Greece experienced several regime changes, including the fall of the Monarchy in 1922, the establishment of the Second Hellenic Republic in 1924 (Parliamentary Minutes, 10, 25/3/1924: 1), and the Monarchy's restoration in 1935, underscoring the severity of divisions between the two poles, which aimed to impose their preferred form of government and exploit their adversaries' failures for influence.

Figure 3.16: A turbulent political world: Greek Government Cabinets (1910-1938)



Adapted from: Greek General Secretarial of the Government and Public (2020)

The post-1929 crisis significantly challenged the Liberal Party's economic strategy. The resilience of adversarialism fuelled political instability and hampered Greek policymakers' ability to mitigate the effects of the Great Crash, and something manifested during the strains of the recovery (see **3.3.II**). Between 1930 and 1933, Greece experienced seven governments, including coalitions and caretaker administrations. The drachma's depreciation and the Greek default intensified the conflict between Anti-/Venizelists (*Akropolis*, 28/9/1931: 1; 12/10/1931: 6; *Kathimerini*, 28/9/1931: 1; 10/10/1931: 1). The Liberal party's enactment of censorship laws from 1931 onwards led to popular uprisings in Athens and Thessaloniki, where in the latter, it led to the violent arson of a refugee community (*Kathimerini*, 3/6/1931: 1; *Proia*, 14/6/1931: 6; *Rizospastis*, 1/7/1931: 1). The government's swift suppression of Papanastassiou's Republican party-initiated rebellion in October 1931 deepened political divisions and social tensions (*Kathimerini*, 25/10/1931: 1; 31/10/1931: 1). Cultural dualism was evident in institutions such as the NBG and the political system, highlighting divisions within political parties (Parliamentary Minutes, XZ', 27/4/1932: 1033; *Vradyni*, 4/5/1932: 1; 4; *Estia*, 4/5/1932: 1) (see **3.2.II;**

3.3.III). The BoG's establishment fostered polarisation and resistance from both parties, who displayed hostility towards the new bank, which was established following the conditionalities of the Geneva Protocol (*Kathimerini*, 12/07/1927: 3; 6/3/1932: 1).

The deeply embedded divisions between the Venizelists, including the Liberal Government and the anti-Venizelist People's Party, obstructed decision-making processes and hindered the formation of a cooperative framework (see **3.3.III**; **3.3.IV**). The zero-sum nature of the political system complicated the development of a unified strategy, exacerbating economic and political crises. Due to recurring scandals (see **3.3.II**) and contentious politics, governments could not retain power long enough to complete a fiscal year. Greece experienced coup attempts by both sides and an escalation of political violence, including assassinations (*Eleftheros Anthropos*, 25/11/1930: 1; *Kathimerini*, 21/10/1933: 1). The Venizelos government's press censorship legislation was seen as a desperate attempt to conceal its inadequate response to the economic crisis (*Kathimerini*, 15/8/1932: 7), combined with its imposition of martial law (*Kathimerini*, 08/10/1933: 4). In response, Tsaldares and the People's Party refused to recognise the Republic (*Estia,* 22/5/1932: 1; *Eleftheron Vima*, 11/8/1932: 1).

The post-1929 crisis exposed a rift between the political apparatus, the civil service, and industrialists regarding the state's role in the economy (*Akropolis,* 21/5/1932: 3) (see **3.3.III**; **3.3.IV**). The severe impact of the Great Depression on the Greek economy shattered each bloc's inter-class alliances, and parties adopted innovative ways to distribute patronage. Social strata such as the entrepreneurial bourgeois were pushed to Anti-Venizelism and then towards Metaxas, while refugees and working classes switched to the Communist Party ("Venizelocommunism") (Mavrogordatos 1983: 50,222). Political passivity towards demands for state intervention culminated in General Georgios Kondylis' coup in October 1935 and the restoration of King George II's monarchy (*Kathimerini*, 11/10/1935: 6). This event intensified the power struggle between the Venizelist and Anti-Venizelist factions, transforming into a more fundamental cleavage between parliamentarism and dictatorship (*Kathimerini*, 19/5/1936; *Proia,* 18/11/1936) (see **3.3.III**). In August 1936, General Ioannis Metaxas established an authoritarian regime as retribution for the executions following the Asia Minor Catastrophe (*Kathimerini*, 5/8/1936: 8).

Constitutional issues and adversarial politics impeded the Greek political system from addressing persistent social and economic problems. Strikes, demonstrations, and peasant uprisings were disregarded by the political elite, who labelled such events as the conspiracy of "Communist agitators" (*Vradyni*, 26/5/1932: 1; *Eleftheros Anthropos*, 28/5/1932: 1) (see **3.3.II**; **3.3.III**; **3.3.IV**). Evidence of the problematic role of the state constitutes the increase in social unrest, captured by the increase in protests and strikes. Between 1931 and 1933, strikes increased from 31 to 213 (compiled from *Kathimerini*; *Vradyni*, *Rizospastis*; *Proia*).

The post-1929 crisis failed to foster a cooperative political environment, instead marking a twofold departure from the status quo. First, it intensified Greek party-political competition, fostering a more violent character and strengthening the interdependence between the party-political apparatus and the army (Parliamentary Minutes, Z', 11/1/1933: 60-69; H' 12/1/1933: 92-95). Second, it facilitated the army's routine involvement in politics and enabled political challengers, such as Ioannis Metaxas, to strategically exploit public disillusionment, ultimately leading to the collapse of liberal democracy in Greece and a dictatorship which emulated Nazi Germany and Fascist Italy. Third, the so-called "regime question" culminated in a civil war during the 1940s and 1950s, which re-emerged in the aftermath of WWII, affecting the country until the restoration of democracy in 1974 (see **2.2.I**; **4.1.I**).

The subsequent section focuses on the role of clientelism and perceptions of corruption within the examined period.

3.3.II Clientelism, Perceptions of Corruption & the Post-1929 Crisis

This sub-section examines the role of patronage politics, rent-seeking, and corruption (see **2.2.II**) in post-1929 Greece, focusing on high-profile scandals such as the quinine scandal and Power & Co.'s blackouts in Athens. It investigates how these factors intensified the polarisation between Venizelists and Anti-Venizelists

(Mavrogordatos, 1986: 93), shaping the political landscape during the Great Depression and the default of 1932. Three main arguments are presented: Venizelos' imposition of stringent censorship legislation in response to these scandals further eroded public trust and exacerbated political polarisation. Second, despite resource scarcity, the Great Depression of the 1930s did not entirely dismantle Greek clientelist networks but instead restructured them. Third, political corruption scandals and maladministration compounded social and economic divisions, challenging the country's governability.

Patronage politics and rent-seeking were particularly prevalent after the Balkan Wars and the Asia Minor Catastrophe, exacerbating regional disparities in Greece. Regions like Macedonia witnessed economic development (Kolliopoulos, 1979: 47) while Epirus and Thessaly grappled with the economic decline (League of Nations, 1924: 53). Politicians exploited these disparities, channelling resources and public funds into their constituencies (Petrakis, 1996: 112). They also manipulated religious tensions between Orthodox Christian refugees and the existing Muslim minority for political gain (Mazower, 1991: 127-129).

To secure the loyalty of the refugees, Venizelos' Liberal Party resorted to the distribution of patronage by promising land, housing, and other assistance, engendering a culture of transactional dependency (Campbell and Sharrard, 1969: 107-161). The divide between PM Venizelos and King Constantine did not disrupt clientelistic networks; instead, clientelism became more institutionalised, infiltrating Greek institutions like the judiciary, banking sector, and civil service (Refugee Settlement Commission, 1924: 2). Public-sector expansion ensued with civil servants doubling between 1915 and 1925 (Ministry of Interior, Administrative Reports, 1915-1935; Mavrogordatos, 2015; 2017), exacerbating inefficiencies due to opaque and non-competitive procurement processes.

From 1924 to 1929, Greek public indebtedness and public expenditure increased by 33% and 53%, respectively (Zolotas, 1929: 81-106). While Mazower (1991: 76) links these increases to the rehabilitation of the refugees, Psalidopoulos (1989: 181; 2019: 292-294) shows that military expenditure surpassed resettlement funds.

Mavrogordatos (1983: 66) highlights the ties between the military officers who received promotions during the Ecumenical government and the People's Party.

In the post-1929 period, political turbulence was further fuelled by corruption and maladministration scandals. For instance, the British firm Power & Traction was embroiled in scandals over delays in the completion of Athens and Piraeus' electricity grids and the fatalities due to the shift to a three-phase electrical system (*Kathimerini*, 9/11/1928: 1; 10/11/1928: 1; Rizospastis, 14/11/1929: 1). The Parliament's President, Dimitris Sofoulis accused the company of forging parliamentary minutes to accrue profits (*Akropolis*, 28/1/1929: 3; 11/5/1929: 102; Gazette of Parliamentary Debates, 32nd Session, 7/12/1928: 425-429). Scholars have scrutinised the company's ties with politicians and bureaucrats (Iatridis, 2006: 54; Mazower, 1997: 112-113; Kostis, 2018: 130-131).

In 1930, a scandal involving adulterated quinine tablets distributed by the Greek General Chemical State Laboratory (GXK) and the pharmaceutical firms, and *Elfa*, *Sanitas*, and *Spes*, further undermined the government's credibility (Savvas and Kardamatis, 1928: 12-15, 489-496, *Kathimerini*, 14/4/1930: 1; 12/1/1931: 6). The scandal redirected the political focus towards corruption (*Eleftheron Vima*, 13/10/1930: 1; *Kathimerini*, 26/10/1930: 1; 16/11/1930: 1; 6/10/1930: 6; 14/10/1930: 1; 12/1/1931: 6; *Akropolis*, 15/10/1930: 1), which was compounded when the GXK Director, Efstratios Galopoulos, faced scrutiny over a "clerical error" that increased the price of bread by 30% (*Kathimerini*, 27/10/1930: 1; 2/11/1930: 1). Public outcry over the rise over the rise in bread prices was rejuvenated when the press of the day accused the government of meddling with industrial interests (*Kathimerini*, 27/10/1930: 1).

These scandals exposed a culture of corruption and clientelism within the Greek political system, fuelling perceptions of a complacent and complicit government, as PM Venizelos was only informed of these events upon his return from Ankara (*Akropolis*, 1/11/1930: 1). Social unrest ensued, with riots in Piraeus calling for a rebellion (*Kathimerini*, 1/11/1930: 1; 3/11/1930: 1; *Akropolis*, 4/11/1930: 1). Additionally, the Minister of Interior Vyron Karapanagiotis faced accusations of nepotism in the roadworks company Ethniki Odopoiia (*Oikonomikos Tachydromos*, 11/5/1931: 4; 12/5/1931: 1), resulting in his resignation.

These scandals increased public distrust towards civil servants and the government, transforming Greek political life into a systematic search for scandals. While the anti-Venizelist press, which aligned with the opposition, played a significant role in this transformation, PM Venizelos did not distance himself from these scandals, inadvertently implicating himself, which reinforced perceptions of his complicity (Gazette of Parliamentary Debates, 26/11/1930: 55-65). His decision to impose censorship via Law 5060 in 1931 (Gazette of Parliamentary Debates, ME, 9/3/1931: 570; *Kathimerini*, 4/4/1931: 3; 5/4/1931: 1) compounded polarisation and reinforced perceptions of systemic corruption. When Venizelos threatened to dissolve the Parliament and call for national elections if the bill did not pass (*Kathimerini*, 7/5/1931: 1), it exposed the PM's insecurity and further undermined the government's legitimacy and popularity.

While it may be argued that many of these scandals (i.e., quinine adulteration) were administrative blunders, others perceive them as an example of clientelism and patronage-led politics (Kornetis, 2013), arguing that they revealed how political connections and personal interests took precedence over public welfare and responsible administration. The endurance of clientelism in the post-1929 period is captured in a study from 1934, which showed that half of the contracts for major infrastructure projects, or ‘public works’, were awarded without appropriate bidding (Papandreou Commission, 1934). The British consul's report on Greece described the contracting system as "rotten," and there were “no major public works projects completed without scandal” (FO 371/15062, Annual Report on Greece, 1931). Primary sources from the period report electoral manipulation, vote-buying, and the use of public resources for political purposes, indicating the prevalence of these practices in Greece in the post-1929 period (FO 371/15959 C926/1005/324, Leith-Ross-Roussin, 30/1/1932; FO 371/15959C945/2004/327, Ross to Roussin, 5/6/1934). The press reinforced perceptions that the economic collapse was attributed to the mismanagement of public finances and resources being channelled to politically connected entities.

The rapid deterioration in living conditions following the Greek default in 1932 (see **3.2.III**) and the predominance of political scandals, combined with the resurfacing of polarisation, exacerbated domestic cleavages and inhibited Greece from fostering consensus to mitigate the effects of the crisis. The Greek budgetary expenditure reached 11.8% of GDP in 1933 to 5% in 1934, 5.7% in 1936, 5.8% in 1937 and 5.7% in 1938 (see Appendix, Figures 14, 15 and 16 on revenues and expenditure) (League of Nations, 1945: 4). The next sub-section turns its attention to the state's role in the post-1929 period, emphasising that in the aftermath of Britain's abandonment, demands for more state interference became more pronounced.

3.3.III Étatism in inter-war Greece:

This sub-section critically examines the relationship between the Greek economy, the inter-war political system, and the state, focusing on the immediate response to the post-1929 crisis. The post-1929 crisis and the Greek default of 1932 challenged Greece's external-financed development strategy from 1926 onwards. The dissolution of the GES and the collapse in international trade necessitated greater state intervention in the economy, marking a turning point for Greek economic policy. To evaluate the mixed outcomes and shortcomings of import-substitution policies adopted after the 1932 default, this analysis engages with three key economic domains: industry, agriculture, and taxation (BoG, 2018). The underlying argument is that the Liberal and Popular Parties failed to capitalise on windfall revenues resulting from the country's default.

In 1924, Greece re-joined the international financial system and gained access to capital markets. Since the country suffered from the *original sin* (see **1.3.I**) and could not borrow internally, the Greek economy relied less and less on its productive capacity and became increasingly dependent on attracting foreign capital (Psalidopoulos, 1989: 250). According to the LoN's (1924: ix) report, Greece's total foreign debt exceeded the country's GDP by approximately 33%. The Greek economy was critically dependent on foreign capital and goods, with foreign loans accounting for 60% of the country's total investments (BoG, 2009: 178).

The international crisis led to massive capital flight; the deterioration in currency circulation brought Greek investment performance to its lowest point, resulting in a confrontation between laissez-faire and interventionist approaches. Upon abandoning gold in 1932, Greek academic and policymaking circles targeting state intervention developed a more conciliatory and compromising tone (Diomedes, 1932: 120). The Greek default of 1932, combined with the collapse international trade regime and financial system, facilitated a retrenchment of the laissez-faire view's position to interventionism (Charitakes *et al.,* 1937: 199). The Greek default and the drachma's devaluation in April 1932 catalysed the emergence of a new perspective – both in theoretical and practical terms - whereby routine state interference became more widely accepted.

Following the electoral defeat of Venizelos' Liberals in 1933, the Popular Government of Panayis Tsaldares adopted a lukewarm approach to industry. Whereas the six-month import quotas were introduced as an emergency mechanism in 1932, they remained in place until the demise of the Republic in 1935. This illustrates the Government's failure to undertake any further measures. In retrospect, the import-substitution strategy's fundamental shortcoming was that due to the excessive tariffs imposed, firms could not import essential raw materials from abroad (*Oikonomikos Tachydromos*, 4/6/1933: 32). Between 1931 and 1934, the imports of machinery shrunk by about 33%. The import-substitution strategy produced futile results; between 1932 and 1938, imports as a share of GDP fell from about 30% in 1932 to nearly 20% in 1938, while Greek exports dropped from approximately 25% in 1932 to around 15% in 1938 (League of Nations, 1945: 47).

Figure 3.17: Establishment of new firms & Horsepower (HP) produced (1921-19380)

Years	New firm established	HP
1921	56	1,821
1922	46	371
1923	41	1,217
1924	107	2,518
1925	132	4,624
1926	124	3,145
1927	214	6,105
1928	192	6,240
1929	62	3,215
1930	45	1,636
1931	93	2,751
1932	50	1,003
1933	37	1,613
1934	67	1,969
1935	113	3,254
1936	124	2,925
1937	160	5,538
1938	152	5,672

Adapted from: Psalidopoulos (1989: 490).

Figure 3.17 illustrates Greece's industrial indicators (number of new firms established each year and the Horsepower (HP) produced), demonstrating that the post-1929 crisis hampered Greek industry, resulting in criticism by industrialists for the government's "static, pre-war conception of the Greek economy" and for "restricting entrepreneurial freedom" (*Ergasia*, 23/11/1932: 1; *Viomichaniki Epitheorisi*, 1934: 74). In agriculture, successful harvests between 1932 and 1934 allowed Greek policymakers to address the country's external dependence on foodstuffs and meet domestic consumption from domestic suppliers. Despite the high level of expenditure (see Appendix, Figures 14 and 16), by 1936, less than 40.000 hectares of the anticipated 276.000 had been transferred to cultivators (Charitakes *et al.,* 1937: 199).

Additional evidence of the shortcomings of the import-substitution strategy was the increase recorded in cereal consumption after 1932, which in retrospect was an illustration of enduring economic hardship rather than an outcome associated with increasing self-sufficiency (Charitakes *et al.,* 1938: 68). While Greece's wheat yields rose by approximately 35%, total cereal output increased threefold between 1930 and 1934; in comparative terms, they remained among the lowest in Europe (AOS, 1939: 156-160). This explains the observation by the Foreign Office, which argued that the boom in agricultural production was "greatly an outcome that was a product of the efforts of farmers than the policies enacted by the [Tsaldares] Government" (FO 371/21143 R3166/94, 'Annual Economic Report for 1936 (A)', 29/4/1937).

Regarding taxation, the state's failure to collect taxes and the tax system's complexity exacerbated the fiscal crisis (FO 371/15062, Annual Report for 1933). Ineffective tax collection, tax evasion, and an increasingly complex tax system restricted the state's ability to finance its economic development strategy (see collection of revenues in Figure 15 in Appendix). Consequently, the imposition of indirect taxes via the imposition of the tariffs had mixed outcomes; per capita, the average Greek citizen paid threefold more taxes than the Balkan countries (i.e., Bulgaria, Romania, and Yugoslavia) (Kondylis, 2009: 182). The LoN's report stressed that the total amount of taxes collected between 1932 and 1933 was 11 million drachmae, which represented an increase of approximately 16% over the previous fiscal year; also noting that tax collection remained inadequate due to widespread tax evasion and ineffective enforcement measures. In 1935, tax revenue accounted for approximately 7.6% of GDP, compared to an average of 11.6% in other European countries (League of Nations, 1934: 43; 1945: 110; BoG, 1936). Since most imported goods bore high indirect taxes, they were now incorporated into the prices of goods; between 1930 and 1936, the purchasing power of a Greek male worker for food products had been reduced by 20% (Riginos, 1987: 230, 245).

The inter-war period exhibited an unsuccessful transition from laissez-faire capitalism to a state-regulated economy. Although the Greek state attempted to expand its role in the economy, this produced mixed outcomes. The country's enduring fiscal imbalance made it challenging for Greece to service its debts, invest in essential infrastructure, and address pressing social needs.

The next section focuses on the problems associated with the Greek public administration system (PA) in the inter-war period, combined with how the Greek PA was affected or shaped by the resurfacing of polarisation in the aftermath of the country's default in 1932.

3.3.IV The Greek Public Administrative System: Evolution without Modernisation?

This section turns its attention to the Greek public administration (PA) and its role during the immediate aftermath post-1929 crisis and subsequent default of 1932. To put things into perspective, it first examines the evolution of the Greek PA and the failed attempts to depoliticise it. Second, it stresses that the passivity of the Venizelos Government after Britain abandoned the GES degenerated into an irreconcilable intergenerational cleavage with the Greek PA, which paralysed the country. Third, it highlights that the shortcoming of the import-substitution strategy adopted by the Liberal and Popular Governments, combined with tensions with Greek PA, made it difficult for the country to enjoy the prospective benefits of devaluation.

Since the mid-19th century, the Greek state transformed into a massive employer in the economy (see **2.2.IV**). With governments routinely appointing their clientele in the public-sector regardless, by the late 1880s, the Greek PA employed sevenfold more civil servants per capita than the UK (Mouzelis, 1980: 242). These practices persisted despite the imposition of 'fiscal house arrest' on Greece after the default of 1893 (see **3.1.I**), with several reports of the IFC criticising the country's administrative inefficiencies, stressing that "poor administrative performance and frequent changes in government can explain why this country is bankrupt" (Corporation of Foreign Bondholders, 1904: 158, 174-182; FO 321893, Rosebery - FO, 17/4/1893).

Despite efforts to depoliticise the Greek PA since the *Goudi Revolution* of 1909 - a plea for radical modernisation (*eksychronismos)* and rationalisation *(orthologismos*) - the National Schism of 1915 saw the appointment, transfer, promotion and dismissal of PA employees and army officers along Anti-/Venizelist lines (*Kathimerini*, 26/5/1932; 30/5/1932: 1; 1/6/1932: 1; *Akropolis*, 31/5/1932: 1). Consequently, between 1914 and 1924, the cumulative size of the Greek PA doubled (Mazower, 1991: 85-86). Although, on average, the salaries of Greek civil servants were reduced from 1,497 drachmae in 1914 to 725 drachmae in 1923, from that point onwards, they kept increasing (Levantis, 1944: 33).

The deepening of the economic downturn in 1931 exacerbated the cleavages between the PA and the Greek industrialists. While the establishment of the Senior Economic Council (*Ανώτατο Οικονομικό Συμβούλειο*, or AOS) marked a turning point for the inclusion of technocratic expertise in economic policymaking (see **3.3.V**), Greek industrialists criticised the AOS for being "overstaffed with bureaucratic, pedantic, young and inexperienced graduates" (*Viomichaniki Epitheorisi*, Sept. 1935: 34-39). While AOS included some of the most prominent economic experts and policymakers in Greece, many of which had received formal [postgradutate] economic training abroad (i.e., France and Germany), including but not limited to Angelos Angelopoulos Alexandros Diomedes, Panayiotis Christodoulopoulos, Dimitris Kalitsounakes, and Xenophon Zolotas (Psalidopoulos, 1989: 304-309), I argue that the hostility of industrialists towards the Greek PA was due to the Liberal government's inadequate intervention in the economy (see **3.3.I**; **3.3.III**).

When it became clear that Greece would not receive an international loan to balance the budget, the Venizelos government instituted wage cuts for Greek public-sector employees, especially in the PA, and decided to stop compensating workers on holidays, sparked a massive mass strike (*Akropolis*, 21/5/1932: 3; *Vradyni*, 20/5/1932: 1). Power & Traction, which was tasked with completing the Greek electricity network in Athens and Piraeus (see **3.2.II**), terminated the electricity supply to the premises of the employees of the Ministry of the Post Office, Telephony and Telegraphy, or *triatatists* (*TTT*) (*Kathimerini*, 9/11/1928: 1; *Akropolis*, 31/1/1931: 7; 1/2/1931: 1), and the *triatatists* organised a strike, on May 20, 1932, it led to the abandonment of posts by employees of the tax administration, customs offices, the treasuries of the ministries and other senior public offices (*Akropolis*, 21/5/1932: 3). The Venizelos Government responded aggressively, resulting in mass unrest (Gazette of Parliamentary Debates, 21/5/1932: 966).

By arguing that the strike was an "obvious revolution" (*Vradyni*, 22/5/1932: 1), Venizelos' government responded by detaining and arresting the demonstrators. It resorted to aggressive tactics by installing armed guards in the Ministry of TTT and the Piraeus customs office (*Gazette of Parliamentary Debates,* 21/5/1932: 966). Although the strike ended with mass unrest, it marked irreparable damage for the Government, especially Venizelos. Alexandros Diomedes accurately captures the political-administrative polarisation in a letter he sent Venizelos in February 1935, arguing that "this country has never before seen a government so incompetent" and that "both morally and intellectually, the political world has never been worse" (A/EV, 06-056, Diomedes to Venizelos, Kifissia, 2/2/1935).

The post-1931 period was marked by a growing antagonism within the Greek PA between the "younger, less partisan generation" who advocated for an independent and rationalised administrative apparatus and their elder peers who remained wedded to the passions of the *Dichasmos* (Veremis, 1983: 176). Therefore, it can be inferred that this intergenerational cleavage was an obstacle for the Greek PA to address its opaque structure and excessive bureaucratisation; the Greek PA's horizontal politicisation and the reciprocal and transactional character binding the political-administrative apparatus remained resilient in the post-1929 crisis. Although as a "candidate critical juncture" (Capoccia, 2015: 290), the post-1929 crisis could create a window of opportunity to prioritise its rationalisation, and improvement of meritocracy, and depoliticisation, as evidenced by the reprisals and purges in the civil service and military, the zero-sum nature characterising Greek politics (see **3.3.I**), undermined the Greek PA's capacity and functionality, and hence, resembled a case of stasis.

The next section engages with Greece's reform capacity problems during the inter-war period, specifically emphasising the period between 1928 and 1933. Moreover, it also outlines the foreign-induced conditionalities the Greek authorities Greece had to comply with to contextualise the country's failures to adhere to the foreign-prescribed demands, undermining Greek credibility among the international creditors.

3.3.V Greek 'reform capacity' during the inter-war period

This section evaluates the Greek state's reform capacity by analysing the conditionalities stipulated in the Geneva Convention, which led to the establishment of the BoG. I highlight that as intervening variables, the path-dependent pathogens obstructed Greece's compliance with externally prescribed conditionalities and degraded its credibility among foreign creditors (see **3.1.I**; **3.1.II**; **3.1.III**).

As an agrarian and underdeveloped economy suffering from the original sin (see **1.3.I**), Greece relied heavily on foreign capital for its post-war reconstruction. Consequently, Greek policymakers linked economic reconstruction to foreign borrowing and investment through the adoption of external anchors like the GES (Bordo and Rockoff, 1996: 389), which led to a departure from the Greek norm due to the imposition of foreign-induced conditionalities stipulated in the Geneva Protocol and the subsequent stabilisation loan (League of Nations, 1927, Annex VI: 40; BoG, 1978: 3). These conditionalities also exposed the idiosyncrasies (i.e., the close relationship between the state and the banking system) characterising the Greek-specific setting in the European context (BoG, 1978: 50-51; 2019: 69).

The Geneva Protocol sought to limit the CB's capacity to lend to the government and required Greece to introduce a balanced budget, reform its fiscal accounting system, reduce public spending, and increase tax revenue (League of Nations, 1927, Article 55: 35-37; BoG, 1936, Article 55: 25-30), which was known as the principle of "budget unity" (League of Nations, 1927: 16–20). This reform involved abolishing many existing special accounts not included in the ordinary budget but still affecting it, bestowing the BoG with the responsibility to recording state finances (League of Nations, 1927, Article 45: 33-34; BoG, 1936, Article 45: 21-22). In contrast to the conditionalities of the Geneva Protocol, the NBG held the surplus funds of state enterprises until 1950 (IA/ETE, $A_1\Sigma_{22}Y_6\Phi_8E_2$). Kostis (1986: 51) and Pepelasis Minoglou (1996: 36; 1998: 52) interpret this arrangement as an effort by Greek officials (i.e., the government and the senior leadership of the NBG) to protect the NBG.

Moreover, the Geneva Protocol emphasised that the BoG must hold reserves in gold and gold-based foreign exchange, amounting to no less than 40% of its banknote circulation (League of Nations, 1927: 7). The statutory minimum associated with the 'cover ratio' required the BoG to convert its banknotes into gold or foreign exchange on demand, by withdrawing 2.5 drachmae for every drachma of reserves lost. The Protocol also stipulated that the NBG would be legally obliged to "maintain daily a minimum balance with the BoG equal to 7% of the aggregate sight deposits payable in drachmae" (League of Nations, 1927, Annex III, Article 7: 26).

The Geneva Protocol included stringent monitoring and surveillance mechanisms and contained a clause mandating a foreign financial advisor at the new CB, which the Greek government tried to circumvent. Specifically, Horace O. Finlayson was appointed as the BoG's special advisor to oversee the activities and policies the BoG pursued, periodically reporting to the Council of the LoN. Despite the Geneva Protocol's stringent conditions, it exacerbated the BoG's weaknesses. Since its establishment occurred at the behest of Greece's foreign creditors, the BoG could not control the domestic money supply. Consequently, its institutional design focused excessively on separation from foreign finance, neglecting clarification of its relationship with Greek commercial banks. With 47.5% of the BoG's assets linked to unmarketable loans to the state bearing low interest, only about 1% were liquid drachma assets (BoG, 1930: x). This lack of liquidity severely undermined the BoG, allowing the government to conduct financial operations with the Greek banking sector, which the BoG could not supervise.

Between May 1928 and the British crisis of September 1931, the BoG experienced withdrawals of 1.6 billion drachmae but withdrew 1.09 billion from circulation, equating to 67.6% of the loss. During the country's abandonment of the GES, the cover ratio dwindled to 27.4%. Another fundamental weakness was that the NBG retained privileges, such as holding deposits of Greek public agencies. The considerable public savings of approximately 350 million drachmae, left under the NBG's control, fuelled criticism by foreign creditors like Finlayson, who argued that the government had "sold the BoG's birthright", violating the spirit, if not the stipulations, of the Geneva Protocol (FO371/12918/C78401, Finlayson to Niemeyer, 3/8/1928).

The BoG faced significant hostility from the political and Greek banking systems, which advocated preserving the NBG's dual-purpose role. Despite resistance from mainstream political parties (i.e., the Liberals and Populists), the BoG's establishment was possible through the support of minor parties. The hostility towards the BoG from the Greek political and banking spheres demonstrated Greece's limited reform capacity and the deeply entrenched transactional relationship between the political apparatus and the NBG.

Analysing the Greek political landscape, it becomes evident that Greece's adversarial political culture and polarisation hindered the formation of a unified response to the crisis. The Liberal government's decision to censor the press with a law that resurrected the Manichean passions of the Schism. The Greek political apparatus prioritised the "regime question" (i.e., Monarchy versus Republic) over economic reforms, leading to a "clientelist state" and ad hoc policymaking (Galanis, 1935: 3). Venizelos' shortcomings in managing the negative effects of the pound's departure from the GES were instrumentalised by the opposition, which was able to expand with the help of the press, extensively focusing on incidents of maladministration and corruption, attributing responsibilities to the Liberal government and PM Venizelos. The social and political tensions were exacerbated because it was perceived that the modernising and liberal state model Venizelos promoted was responsible for limiting democratic freedoms without the adequate counterbalance of a welfare state. Conflicting interests and inevitable tensions tore apart Greek society.

The predominance of zero-sum politics was also illustrated in the divisions within the Liberal government and the Greek political and policymaking apparatus, such as the clash between PM Venizelos and Finance Minister Maris, the Governor of the BoG, Alexandros Diomedes, and the leaders of the political parties over the Government's economic policy. At the same time, the crisis did not lead to an abandonment of monetary stabilisation. Throughout the post-1929 period, Greece experienced a high turnover of political and administrative personnel, which reflected the Manichean antagonism and zero-sum nature of politics.

Between 1928 and 1935, Greece introduced significant reforms, including the establishment of the BoG, the Agricultural Bank of Greece (ABoG), the Council of Senior Economic Advisors (AOS), KEPES (Centre for Economic Planning and Research), and IKA (Social Insurance Institute), which marked critical developments in Greek policymaking. Each institution aimed to address various financial and structural economic challenges, from centralising and depoliticising monetary policy to modernising agriculture and providing social security.

The BoG, founded in 1928, was pivotal in centralising monetary policy and stabilising the currency (Tsouderos, 1958). As the nation's central bank, the BoG facilitated fiscal policy implementation and maintained confidence in the financial system (Kostis, 1995). However, its credibility was tested during the 1932 default (Mazower, 1991), and its inability to merge with the National Bank of Greece (NBG) revealed the resilience of the status quo and vested interests (HA_BoE, Diaries of

Montagu Norman, London, 18/11/1930; IATE $A_3\Sigma_1Y_2\Phi_{183}$, Diomedes to Tsouderos, London 20/11/1930). The BoG's significance lies in its efforts to create a stable financial environment amidst political and economic turmoil.

Formed in 1929 (Kotsoni, 2012), the ABoG targeted the agricultural sector’s challenges, such as low productivity, limited access to credit, and inadequate modernisation. Despite the modest productivity growth (0.9% growth between 1928 and 1938), the ABoG played a critical role in modernising Greek agriculture – a pivotal sector in the Greek inter-war economy. In addition to supporting agricultural activity and rural development, the ABoG coordinated agricultural subsidies and programmes, indirectly contributing to Greece’s transition towards an industrial economy in the post-war period by improving agricultural productivity and freeing up labour for the industrial sector. In contrast, rural development fostered a domestic market for industrial goods.

The AOS, instituted in 1927 (Mazower, 1989), aimed to provide technocratic expertise in economic policymaking. Although the AOS faced opposition from political factions and struggled to influence the Prime Minister's inner circle, it contributed to better economic management and sustainable growth (Kostis and Petmezas, 2006). The AOS published over thirty reports between 1930 and 1940, offering valuable insights into the Greek economy during the 1930s (Psalidopoulos, 1989). Like AOS, KEPES was responsible for research, analysis, and forecasting; KEPES was essential in developing efficient and forward-looking policies. KEPES's significance stems from its commitment to *evidence-based policymaking* and long-term economic planning. Both KEPES and AOS represented a move toward a more centralised coordinated approach to economic policymaking, and their long-term significance lies in the involvement of experts in the policymaking process.

IKA, established in 1934 (Kremmydas, 2013), represented a considerable advancement in social welfare policy, providing social security coverage to urban, industrial, and service workers. As Greece's first large-scale social insurance scheme, IKA demonstrated the government's commitment to addressing social inequalities and improving living standards. IKA's significance is evident in its pioneering role in developing the Greek social welfare system.

Nevertheless, experts in economic policymaking faced challenges such as political instability, power struggles, and vested interests, which hindered policy implementation (Clogg, 2013). Despite these obstacles, the significance of these reforms lies in their efforts to modernise the economy, provide expert guidance, and improve social welfare amidst a turbulent political and economic context. While the effectiveness of these institutions varied, their collective contributions laid the groundwork for Greece's post-war economic growth and development.

3.4 Conclusion

This chapter addressed the research questions and sub-questions, specifically about the Greek and economic systems in the period leading up to the economic crisis of the 1930s (**SQ1**), the manifestation of the post-1929 crisis on domestic and international levels (**SQ2**), and the response of Greece's international creditors (**SQ3**). The chapter has shed light on the key factors that shaped Greece's response to the economic crises of the 1930s and the 2010s (**RQ**).

3.1 examined the impact of monetary and financial legacies on Greece's political economy, highlighting the country's excessive external dependence, political instability, and credibility deficit. It discussed Greece's attempts to secure loans from the League of Nations and the role of the International Financial Commission in shaping domestic policy. It stressed that the country's isolation in the aftermath of the Asia Minor Catastrophe marked a critical juncture for Greek economic policy, prioritising the attraction of investments and loans to facilitate economic development. In addition to critically engaging the efforts of policymakers to restore the pre-war monetary and financial order, the section also explored the gold standard's strengths and weaknesses, combined with the conditionalities stipulated Geneva Protocol and LoN-sponsored stabilisation programmes. Two fundamental arguments were presented: internal and external constraints triggered a *paradigm shift* in Greek economic policy, and the post-war reconstruction was built on poor foundations. I stressed that the interdependence of the world economy transmitted the effects of the Great Crash of 1929 and the subsequent banking crisis.

3.2 addressed the transmission of the crisis in Greece through the collapse in the price of primary goods and the trade slump. It examined Greek policymakers' efforts to salvage the country's investment-driven economic paradigm and the constraints caused by excessive external dependence and foreign debt overhang (see **1.3.II** and Figure 13 in Appendix). The section reviewed the events leading to Greece's abandonment of the gold exchange standard (GES) and the negotiation of the Varvaressos Agreement. Three underlying arguments emerged. First, in hindsight, Greece's abandonment of the GES and the drachma's devaluation were inevitable outcomes. Second, the Greek default of 1932 necessitated more robust state intervention in the economy. Third, while in the post-1932 period, Greece experienced a swift rebound in economic growth, the strains of the recovery exposed Greece’s deeply entrenched problems.

3.3 delved into the influence of the *path-dependent pathogens* in the post-1929 period. It argued that the path-dependent legacies and persistence of deeply entrenched problems during the crisis hindered Greece's capacity to mitigate its effects. The adversarial political culture and polarisation hindered the formation of a unified response to the crisis. The Liberal government's decision to censor the press exacerbated social and political tensions.

The government's defeat in the battle of the drachma and the abandonment of the GES led to calls for a more interventionist role by the state in social and political life. The rise of the Metaxas regime in 1936 saw Greece incorporating elements of Italian Fascism and German National Socialism, including state-directed economic planning, protectionist measures, and establishing state-controlled industries and corporatism. The underlying argument presented here was that Greek dirigisme emerged due to the unique challenges the Greek political economy faced in the aftermath of the default of 1932, and despite the resilience of the path-dependent constraints, Greece experienced a swift bounce-back in terms of inflation. State interventionism can be observed in the relationship between the BoG, successive governments, and the Greek commercial banks, with plans to merge the BoG with the NBG, re-emerging over time. In addition to stressing the resilience of the path-dependent pathogens and highlighting that they undermined Greek credibility abroad, I critically engaged with the strengths and weaknesses of the country's response to the crisis.

The next chapter engages with the run-up, manifestation, and aftermath of the post-2008 Eurozone crisis.

Chapter 4

The Eurozone Crisis of the 2010s & its Greek Dimension

Introduction

The previous chapter This chapter charts the effects of the post-2008 shock by investigating the complex link(s) binding the Greek political and economic domains. It addresses the following sub-questions (SQs):

- **SQ1** *What were the core features of the Greek political system in the period preceding the outbreak of the crises in the 1930s and 2010s?*
- **SQ2** *How did the economic crises of the 1930s and the 2010s manifest themselves domestically and internationally?*
- **SQ3** *How did Greece's international creditors respond to the country's economic predicament, and what was their underlying recipe to mitigate the effects of the crisis?*

It offers insights that will be analysed more comparatively and wholesomely in Chapter 5. This chapter responds to the fundamental research question (RQ) guiding this thesis, which is the following:

RQ Which factors shaped Greece's immediate response to the post-1929 and post-2008 economic crises?

This chapter's analysis is formulated by deploying the three building blocks: i) *conditionality*, ii) *credibility*, and iii) *external dependence* (see **1.1**; **1.2**; **1.3**).

Section 1 addresses SQ1 by identifying features characterising Greek economic development from 1974 to 2008. I emphasise that in the 1970s, financial turbulence and Greece's European accession challenged its state-led, protectionist growth model. The Single Market's launch in the 1980s pressured the Greek economy's productive base and aggravated its external dependence (i.e., energy, raw materials, and agricultural goods). I argue that the cross-party consensus favouring EMU membership marked a turning point (see **2.1.IV**) in Greek economic policymaking. The concern of exclusion from 'core Europe' and the necessity of adopting an external anchor to gain credibility in international markets facilitated a more coordinated approach to economic challenges and further European integration. These reforms included reducing public spending, increasing revenues, and restructuring the public-sector.

Moreover, the consensus led to privatisations and denationalisations as Greece sought to liberalise its economy and comply with EMU requirements (Bitzenis and Marangos, 2007). Despite EMU entry marking a significant milestone, the post-2001 period can be seen as a time of squandered opportunities. This section critically assesses Greece's fulfilment of the conditionalities stipulated in the Maastricht Treaty (see **1.1.III**), emphasising that the country's EMU entry and convergence with the EU-15 concealed a credibility deficit linked to the "Greek statistics" fiasco. The country also failed to address longstanding competitiveness issues, such as its triple deficits (i.e., fiscal, trade, and BoP) and the onerous debt overhang it had accumulated, which resurfaced with a vengeance during the post-2008 crisis.

Section 2 addresses **SQ2** by exploring the international transmissions of the 2008-2009 banking crisis, the ensuing sudden stop, and the significant developments of the post-2008 crisis as it degenerated into the Eurozone crisis in the 2010s. Moreover, it addresses **SQ3** by engaging with the conditionality enshrined in the three adjustment programmes, or Memoranda of Understanding (MoUs, used interchangeably). From the perspective of Greece's lenders and partners, the Greek crisis was viewed as a "window of opportunity". The institutions comprising the Troika viewed the crisis as an opportunity to implement fiscal consolidation measures and overdue structural reforms addressing longstanding structural issues such as its bloated public-sector, ineffective taxation system and inflexible labour market (EC, 2012: 78; ECB, 2014: 34). The crisis was further seen as an occasion to revamp the Eurozone's fiscal and economic governance structures, thereby boosting the EU's preparedness to tackle future crises and foster fiscal discipline amongst member states (ECB, 2015: 45). Rooted in this crisis-as-opportunity perspective is the conviction that challenging periods can ignite transformational change and cultivate a more resilient, competitive, and sustainable economic model (IMF, 2017: 23; ECB, 2018: 61; EC, 2019: 29). However, it is important to underscore that while these structural reforms were necessary, their implementation involved substantial social costs and sparked significant resistance within Greece. As quoted by one Greek official, "We are essentially being asked to dismantle our society to save our economy" (INT-8). This thesis concurs with Mody (2018) that Greece still faces a more onerous debt overhang than before the crisis, and structural problems persist, demanding further attention and comprehensive solutions to ensure long-term macroeconomic stability.

Section 3 explores the relevance and applicability of path-dependent pathogens in the post-2008 period. Specifically, it investigates these features throughout the Eurozone Crisis of the 2010s and engages with the extent to which the path-dependent pathogens exhibited resilience, shaping the country's response to the shock.

First, the legacies of political adversarialism and zero-sum politics, including the predominance of an "us versus them" approach, perceptions of humiliation, and tutelage, significantly influenced the political landscape. In addition to inhibiting the formation of consensus-building and cooperative efforts, the polarising wedge the MoUs and external intervention drew resuscitated the pre-existing cleavages, exacerbating political instability and leading to a fragmented response and a lack of ownership.

Second, the legacies of clientelism, rent-seeking, corruption, and patronage exacerbated the crisis by undermining Greek credibility and eroding public trust. While the lack of resources and foreign intervention weakened patronage networks, vested interests inhibited the implementation of several and perceptions of corruption endured, while the timing of various appointments illustrates the restructuring of patron-client exchange. Third, Greece's legacies of state interference and étatism were significantly challenged but hampered the private sector's ability to contribute to economic recovery and complicated efforts to achieve fiscal adjustment and regain market access. Fourth, the crisis exposed the dysfunctional nature of Greek public administration (PA), with inefficiencies in service delivery and decision-making processes endured, compounding the lack of trust, slowing the implementation of critical measures and hindering resource allocation. Fifth, the reform capacity of the Greek state during this tumultuous period was undermined as a result of the predominance of political instability and zero-sum politics; the foreign intervention exacerbated polarisation, combined with the perceptions of humiliation; the political system's adoption of a blame-shift strategy undermined the capacity of the Greek authorities to cope with the comprehensive and far-reaching externally prescribed agenda, which made the country even more vulnerable and prolonged the period of stagnation.

The underlying takeaway is that the path-dependent pathogens inhibited the capacity of successive Governments to exercise ownership (see **1.2.III**) over the implementation of reforms stipulated in the externally prescribed conditionality (see **1.1.III; 1.2.III; 1.3.III**). While the crisis of the 2010s is still relatively recent, and it may be too early for all changes to be visible or to have taken full effect, this thesis argues that at the time of writing, the limited scope of changes implemented has been insufficient in fully dislodging the underlying pathologies of the Greek political economy, such as political adversarialism, clientelism, and the inefficiencies of the public-sector. Acknowledging that in the post-2008 period, Greece was unable to achieve sustainable economic recovery and long-term stability, following Hay (1993: 323), it could perhaps be described as a "crisis without the required solution" (see **2.1.IV**). Whether in the medium- or long-term, the crisis leads to more substantial changes that tackle the deep-rooted issues within its political economy remains to be seen.

4.1 The Run-up to the Eurozone Crisis

4.1.I engages in an in-depth analysis of the financial and economic context surrounding Greece's accession to the European Economic Community (EEC) and explores the considerable shifts in the global environment during the 1970s and 1980s. This section highlights that Greece's entry into the EEC and its stringent reform conditionality (as documented by Featherstone, 2005) exposed the inherent weaknesses of the nation's state-led economic paradigm (see **2.2.III; 3.3.III; 4.4.III**). It contends that these factors, combined with the resurgence of macroeconomic, political instability and fiscal profligacy, undermined Greek credibility, stressing that Greece's external dependence increased in the run-up to the Maastricht Treaty of 1992, as evidenced by its growing reliance on EU funding and external borrowing.

4.1.II explores the period from 1993 to 2000, which began with divergence and policy failure but culminated in convergence and an optimistic economic outlook, as evidenced by the 3.9% GDP growth rate in 2000. Amid increasing apprehension about Greece's potential exclusion from the core of Europe in the mid-1990s, Greek policymakers reassessed their priorities, leading to numerous long-overdue reforms, encompassing fiscal consolidation and monetary policy adjustments. Although Greece joined EMU, this section stresses that in addition to not having entirely satisfied the accession criteria (see **1.1.III**), ensuring the adoption of the Euro in 2002, Greece did not overhaul its productive model and hence failed to address its deep-seated competitiveness issues. This situation raises concerns about the efficacy of the imposed conditionality and highlights the shortcomings of external constraints characterising the euro accession process. Furthermore, the unsustainable debts that Greece accumulated, coupled with its enduring imbalances, resurfaced with a vengeance in the post-2008 period, intensifying the challenges faced by the Greek economy. Additionally, the Eurozone's architectural flaws, the shortcomings of post-EMU conditionality, and the inadequacies of external monitoring and surveillance further exacerbated the economic challenges faced by Greece.

4.1.III delves into the years between 2001 and 2007. Drawing on the work of Gourinchas et al. (2016) and Pisani-Ferry (2013), this chapter emphasises that the euro’s adoption led to a period of stability and dynamic, consumption-driven growth, with Greece's GDP growth averaging 4.1% from 2001 to 2007. Nevertheless, the relaxation of fiscal and credit policies after 2002, coupled with the rapid financial derailment under the New Democracy Government (2004-2009), resulted in "triple deficits" (i.e., fiscal, trade, and balance of payments deficits) (see **1.3.II**) and a burdensome debt overhang (debt-to-GDP ratio at 146.2% in 2010). The central argument is that these triple deficits ultimately sowed the seeds for Greece's debt crisis in the 2010s (see **4.2.I**), highlighting the critical role of *credibility* and *external dependence* in shaping the country's economic trajectory. My analysis underscores the extent to which the country's severe imbalances and *credibility deficit* necessitated more demanding conditionalities and increased external intervention to address the underlying issues.

4.1.I Economic Legacies (1974-1993)

The restoration of Greek democracy in 1974 coincided with an unfavourable international economic environment. The oil shock of 1973 and the collapse of the Bretton Woods system marked the end of vigorous economic growth experienced by Greece between 1954 and 1973 (IMF, 2006; Psalidopoulos, 2019: 189). This period, known as the "Greek miracle", saw industrial production increase by approximately 180%, making Greece the second-fastest growing economy globally. However, this expansion was soon challenged by various external factors testing the Greek economy's resilience and adaptability.

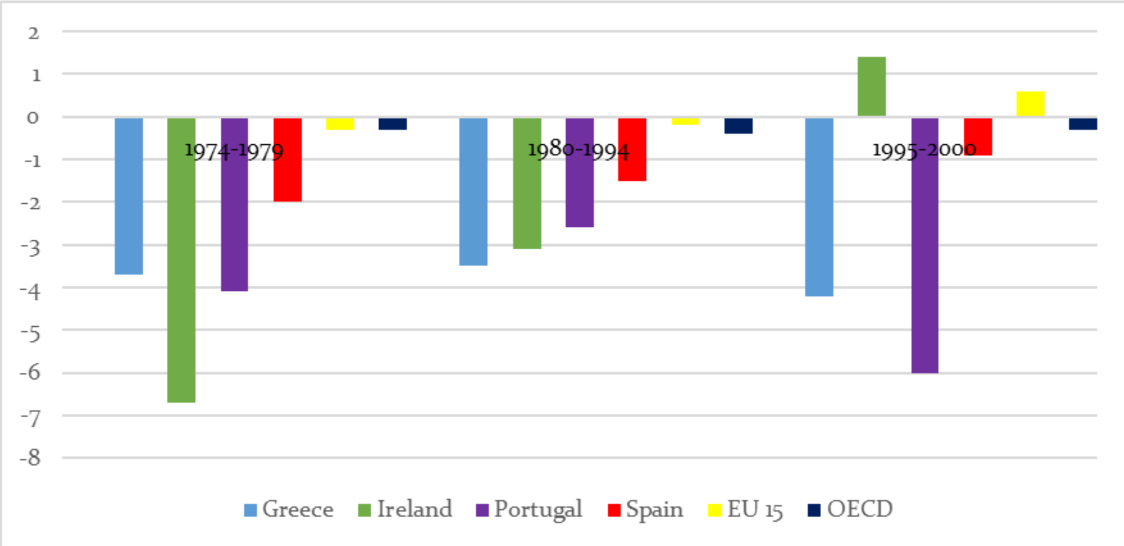
In the 1950s and 1960s, Greece's persistent current account deficits and inability to borrow abroad in its domestic currency (the so-called original sin) did not result in financing problems (see **1.3.I**; **4.1.I**; **4.2.II**). However, these imbalances became unsustainable in the face of the financial-cum-economic turbulence of the 1970s and 1980s. Successive Greek governments pursued an 'inflationist' strategy, repressing interest rates and channelling cheap credit into the economy (Goldthorpe, 1978; Maier, 1978).

In 1975, the drachma abandoned the 'dollar bloc' and adopted a "crawling peg" with a basket of European currencies, such as the Deutsche Mark (DM) (Obstfelt, 1995: 74, 81-82). The adoption of countercyclical expansionary fiscal and monetary policies and the Greek economy's increasing external dependence on primary goods led to periodic devaluations of the drachma. In 1974, Xenophon Zolotas, the BoG Governor, highlighted that targeted liquidity failed to stimulate consumption and secured minimal productivity gains during this period (IA/TE, $A_2\Sigma_1Y_2\Phi_1$ B_2, Annual Report, 1975).

Inflation rapidly surged between 1975 and 1981, from 13.4% to 24.5% (Bank of Greece (BoG), 1984: 5). This period witnessed the deregulation of financial and capital markets, the expansion of securities, and the deepening and widening of global financial integration (Frieden, 1991; Cerny, 1994; Eichengreen *et al.,* 1996). These developments, combined with the negative externalities of the oil shock of 1979, undermined the industrial bases, financial systems, and overall competitiveness of small-closed economies, such as Greece, Spain, and Portugal, characterised by excessive regulatory burdens and pronounced state interventionism (Frieden and Jones, 1998).

Rising unemployment in Greece throughout the 1970s generated demand for jobs in the public-sector (*To Vima*, 14/4/1977: 13; *Ta Nea*, 9/3/1979: 1). The Organisation for Economic Co-operation and Development (OECD) reported that Greece had one of the most heavily regulated markets among OECD countries during this period (OECD, 1980: 45). The high degree of interventionism and excessive regulatory burdens stifled innovation and competitiveness hindering Greece's economic potential (Mitsopoulos and Pelagidis, 2007: 32-33).

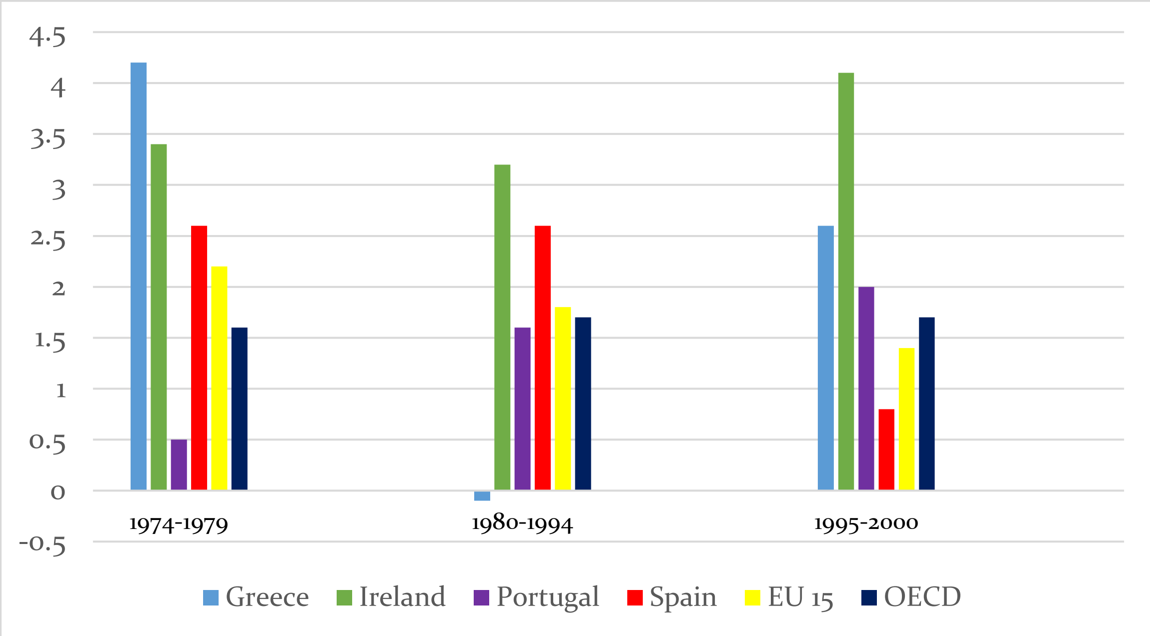
Figure 4.1: Current account balance as a percentage (%) of GDP in Greece, Ireland, Spain, the EU-15, and OECD (1974-2000).



Adapted from: Bryant et al. (2001: 4); OECD Historical Statistics 1970-1999.

Greece joined the European Economic Community (EEC) in January 1981, but the October elections brought Eurosceptic PASOK to power, and hampered Greek credibility. While the *Financial Times* (19/10/1981) reported that Papandreou's victory "sent shockwaves through the EEC", *The Economist* (24/10/1981) expressed concerns about the potential instability under Papandreou's leadership. These concerns were not overblown; **Figure 4.1** illustrates that during PM Papandreou's first four years, the Greek current account deficit virtually doubled due to wage increases, rampant public expenditure, and costly nationalisations. These policies could only be financed by further depreciating the drachma, resulting in inflation exceeding 20% by 1984 (BoG, 1983; Gagales and Roehler, 2001: 7). PASOK's decision to postpone the implementation of several key reforms that were expected from Greece as member of the EEC, including those related to economic liberalisation, the pursuit of fiscal consolidation and reducing public deficits, other structural reforms in the labour market and pension system, as well as their slow transposition of EEC directives into national law, exacerbated tensions with the EEC (BoG Archive, $A_2\Sigma_1Y_2\Phi_4/4$: 9; EEC Commission, 1989: 60). Commission President Gaston Thorn criticised Greece's excessive protection and subsidisation, which hampered the development of dynamic small and medium-sized firms and discouraged necessary structural changes in Greek industry (European Communities, 1985: 90-93).

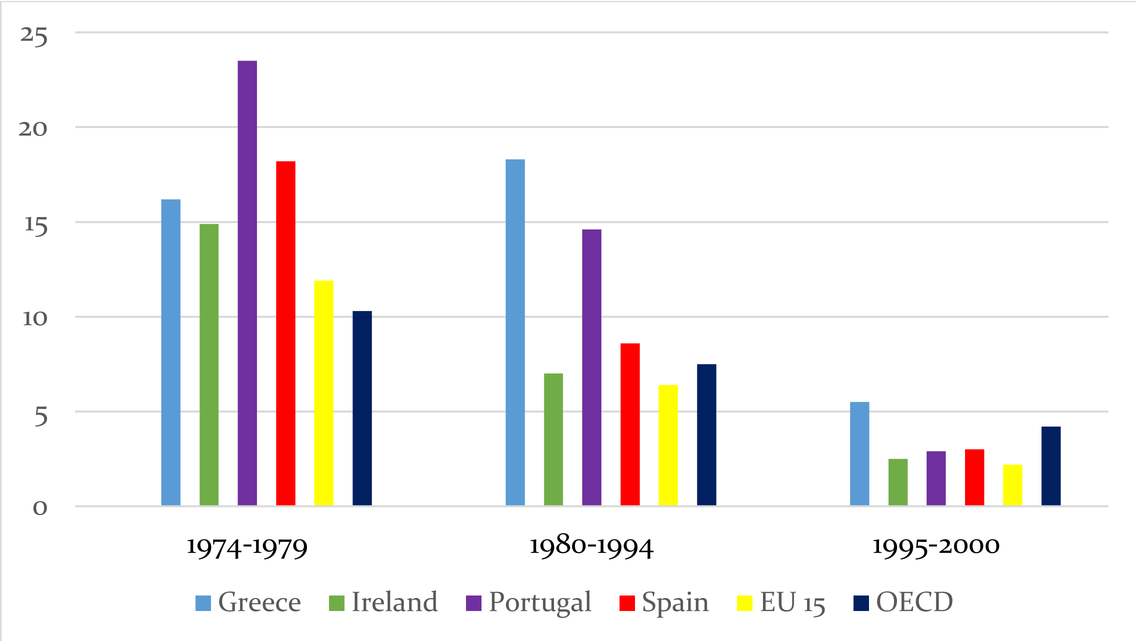
Figure 4.2: Annual growth of Productivity in Greece, Ireland, Portugal, Spain, the EU-15, and OECD (1974-2000).



Adapted from: Bryant *et al*. (2001: 4); OECD Historical Statistics 1970-1999.

After EEC accession, Greece's economy concentrated disproportionately on declining, low-productivity, and highly protected traditional industries (Papaligouras quoted in Psalidopoulos, 1996: 478). For instance, the textile and agriculture sectors, traditionally dominant in the Greek economy, experienced significant drops in productivity. The textile industry, once a driving force, faced stiff competition from European markets; agricultural productivity struggled due to outdated farming practices and lack of modernisation, despite the sector's critical role in the Greek economy. The lack of productivity across these sectors between 1980 and 1994, captured above, in **Figure 4.2** contributed to economic stagnation (Moschos and Stournaras, 1998). Consequently, the Greek economy ran 'triple deficits' (current account, budget, and trade balances) and experienced a sharp increase in domestic borrowing, exacerbating its external dependence (BoG, 1984: 23; 1995: 86). By 1983, Greek debt surged to 24% in GDP terms, or 18% relative to Greek exports (BoG, 2001: 14; Psalidopoulos, 2019: 214). The public deficit-to-GDP ratio reached 21.5%, the debt-to-GDP ratio surged to 100%, and inflation soared to roughly 20% between 1988 and 1989 (BoG, 1992: 16; OECD, 1990: 10-11).

Figure 4.3: Annual consumer price inflation rate in Greece, Ireland, Portugal, Spain, the EU-15, and OECD (1974-2000).



Adapted from: Bryant *et al.* (2001: 4); OECD Historical Statistics 1970-1999.

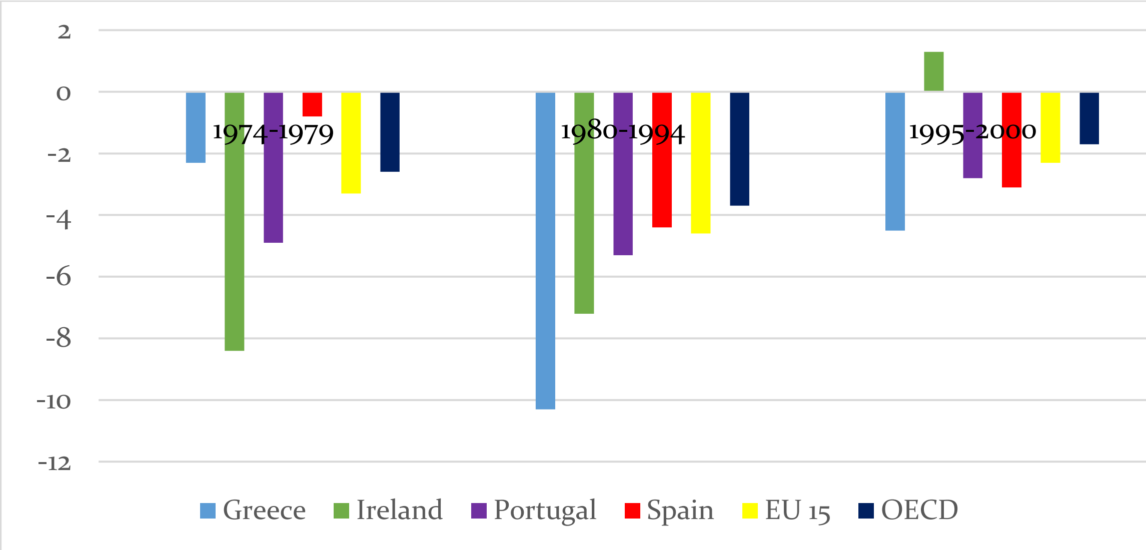
Figure 4.3 captures the rampant inflation and the broader economic and political cul-de-sac that pushed Greece to the brink of default (*Ta Nea*, 23/2/1990: 2; 25/5/1990: 14; *Kathimerini*, 26/6/1990; BoG, 1992: 28). Following the abandonment of the stabilisation programme in 1988, at the beginning of 1990, public debt exceeded 80% of GDP, and the deficit reached 16.1% of GDP; in 1990, inflation rose to about 20% - the highest in the EU-15 and OECD -, while the balance-of-payments widened further. Consequently, Greece seemed unlikely to participate in ERM II or join the European Monetary Union (EMU) (BoG Archive, $A_2\Sigma_2Y_6$,1990, Annual Report, 1991: 17). In April 1990, Konstantinos Mitsotakis' New Democracy (ND) formed a new government, prioritising an EEC-sponsored loan to support Greece's balance of payments (BoP) position (*Ta Nea*, 12/12/1990: 25).

The Mitsotakis government co-signed the Maastricht Treaty in December 1991 and received an EEC-sponsored stabilisation loan of ECU2.2 billion with clear-cut rules and thresholds (conditionality) (i.e., curtailing public spending, inflation and reducing the number of public-sector employees by 10%). From 1992 onwards, the Greek economic paradigm centred on financial liberalisation, macroeconomic adjustment, and disinflation, driven by a cross-party consensus to join the EMU at the earliest opportunity (*Oikonomikos Tachydromos*, 3/12/1992: 4;15/10/1992: 43; *To Vima*, 1/3/1992: 12).

The Maastricht Treaty mandated that member states meet specific monetary and fiscal targets, known as the 'Convergence Criteria,' before joining the EMU (see **1.1.III**) (Official Journal of the European Communities, L 139, 1998: 1-5). These criteria compelled countries to redress imbalances and adjust their national economic policies towards liberalisation, marketisation, privatisation, and stabilisation. The Maastricht criteria (see **1.1.III**) consisted of five essential economic indicators: low inflation rates (Maastricht Treaty, 1992: Art.104c.1), annual budget deficits not exceeding 3% of GDP, debt-to-GDP ratios below 60% (Maastricht Treaty, 1992: Art.104c.2), participation in ERM II for at least two years, and long-term interest rates no more than two percentage points above the three best-performing member states (Maastricht Treaty, 1992: Art.109j.1).

However, trade unions' opposition (e.g., ADEDY and GSEE) and PASOK's return to power hindered the reformist agenda (*Ta Nea*, 5/5/1993: 5; 26/6/1993: 11; 7/7/1993; OECD, 1993: 15-20). **Figure 4.4**, below demonstrates that the fiscal slippage offset prior progress, causing significant divergence from the EU-15 and non-compliance with the EMU accession criteria (see **1.1.III**). Consequently, Greece's fiscal deficit surged to 16.2% of GDP in 1990, well above the EU-15 average of 4.4% (BoG, 1991; Eurostat, 2001). During this period, Greece's public debt rose sharply from 22.6% of GDP in 1980 to 99.1% in 1993 (BoG, 2004: 68-69), driven by high fiscal deficits, high real interest rates, and low GDP growth (Christodoulakis, 2019: 88-89). This deterioration in Greece's fiscal position and escalating public debt hindered the country's ability to meet the EMU accession criteria, particularly the Maastricht criteria regarding government deficit and debt levels (see **1.1.III**).

Figure 4.4: General government deficit as a percentage (%) of GDP in Greece, Ireland, Portugal, Spain, the EU-15, and OECD (1974-2000).



Adapted from: Bryant *et al*. (2001: 4); OECD Historical Statistics 1970–1999.

The following section discusses the period between 1994 and 2000, which began with divergence and policy failure but culminated in convergence and an optimistic outlook. It covers the prelude to Greece's adoption of the Euro and critically assesses the extent to which the country complied with the EMU accession criteria. While the implementation of overdue reforms characterised this period, I stress Greece's unsustainable debt in the 1980s and the enduring imbalances.

4.1.II Economic Revival (1994–2000)

The previous sub-section covered the period between 1974 and 1992, when Greece's political economy experienced significant shifts, largely influenced by the interplay of conditionality, credibility, and external dependence. Following the end of the military junta in 1974, Greece faced structural economic challenges, which were exacerbated by fiscal imbalances (OECD, 1976: 43). Despite the democratic transition, populist measures compromised the credibility of economic policies, leading to an escalation in fiscal deficits (Kouretas, 1996: 58). The ascendance of PASOK in 1981 ushered in a period of expansionary fiscal policies, exacerbating Greece's reliance on foreign borrowing (Ministry of National Economy, 1982: 45). The country's accession to the EEC in 1981 imposed strict economic conditions, often conflicting with domestic socio-political realities (EC Commission, 1981: 17). The early 1990s were marked by Greece's efforts to meet the Maastricht Treaty's stringent criteria for EMU membership, underlining the tension between internal political economy imperatives and external economic conditionality (Maastricht Treaty, 1992: 15).

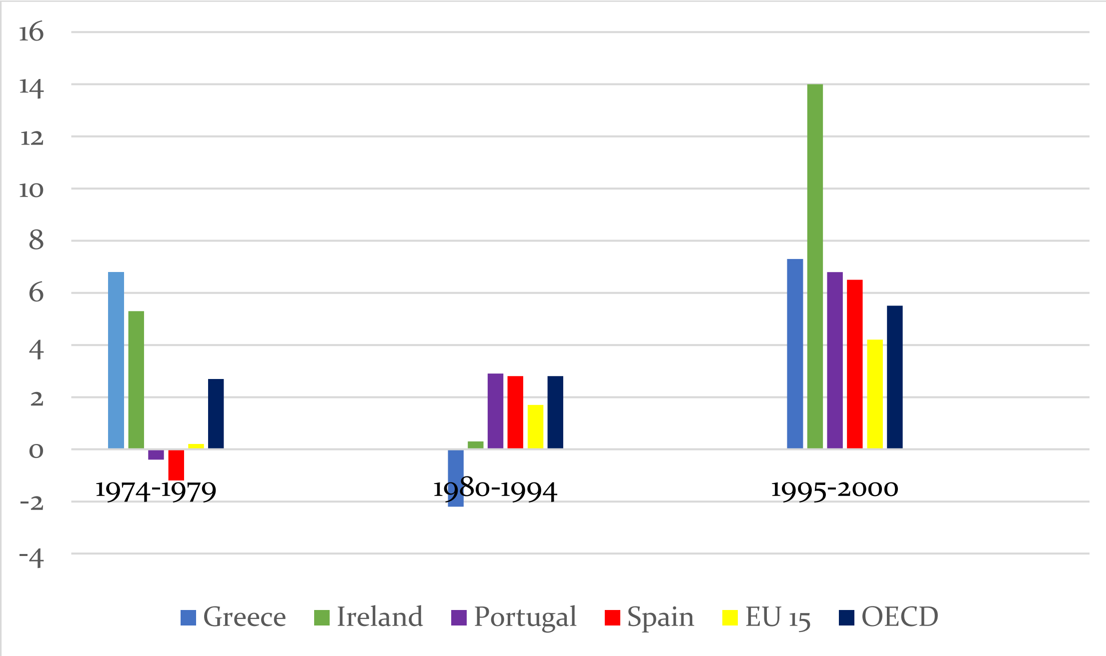
This section turns its attention to the economic revival Greece experienced before the turn of the century. I highlight that the Greek economy during the 1990s experienced economic instability and structural weaknesses and was entangled in a nexus of conditionality, credibility, and external dependence. Substantial external financial aid, primarily from the EU, was contingent on the implementation of stringent austerity measures, thereby establishing a paradigm of conditionality. Despite commitments to this austerity programme, the Greek government's credibility was persistently questioned due to the continued high public spending, pervasive tax evasion, and reluctance to privatise State-Owned Enterprises (SOEs). The country's dependence on external financing further exposed it to the vicissitudes of global financial markets. The entry into the Eurozone in 2001, while signifying nominal progress, did not rectify these entrenched structural issues, setting the stage for the impending economic turmoil of the 2000s. This narrative posits that the lack of substantial reform during the 1990s was a critical factor precipitating the debt crisis of the 2010s (see **4.2.I**).

During the early 1990s, most industrialised nations experienced disinflation and liberalisation. Conversely, in Greece, these processes were delayed; the Greek economy experienced rampant inflation, excessive regulatory burdens, 'triple deficits', and a mounting debt by the mid-1990s (see **1.3.II**) as a result of clientelist and étatist biases (see **2.2.II**; **2.2.III**; **4.3.II**; **4.3.III**) (*Ta Nea*, 17/01/1994: 10; *Oikonomikos Tachydromos*, 13/1/1994: 14-16). Despite the Papandreou government’s (1993-1996) attempts at modernising ailing private- and state-owned enterprises (*Oikonomikos Tachydromos*, 21/10/1993: 17), by 1994 Greek debt servicing costs amounted to about 30% of total government expenditure or 14% of its GDP, and the public debt-to-GDP ratio surpassed 100% (BoG, 1995; Manessiotis and Reischauer, 2001: 110), triggering a vicious cycle of economic stagnation, and escalating public expenditure (BoG, 1992: 16; *To Vima*, 1/1/1992: 12; 30/04/1995; *Ta Nea*, 15/7/1992: 16; 25/7/1992: 16 *Oikonomikos Tachydromos*, 22/7/1993: 2).

International organisations such as the IMF and the OECD (1995: 3) highlighted structural issues such as disappointing trends in manufacturing, and export performance, inflation, which impeded productivity growth and reduced its long-term potential (*Oikonomikos Tachydromos*, 19/01/1994: 15). In addition to the fiscal slippage between 1993 and 1996, which widened the country's trust deficit, the PASOK government's decision to halt structural reforms it had committed to implementing (e.g., privatisation and fiscal restraint), undermined Greek credibility and widened the trust deficit (*Ta Nea*, 30/7/1993: 10; *To Vima*, 1/3/1992: 3,7), contributing to excessive public spending, tax evasion, and failure to implement structural reforms (*Ta Nea*, 6/4/1993: 11; 7/4/1993: 10; 7/7/1993: 17; 17/7/1993: 9*; Oikonomikos Tachydromos,* 22/7/1993: 15).

The Greek budget deficit reached 7.4% of GDP in 1996, surpassing the 3% Maastricht criterion (Eurostat, 2001). The enduring delays in privatising major state-owned-enterprises exacerbated the problem (EC, 1996: 20-21; OECD, 1998: 26-27). Additionally, poor macroeconomic conditions and lack of currency trust led to speculative attacks on the drachma between 1990 and 1994 (OECD, 1995: 9). Yet, the BoG insulated the economy from the EMS crises in the late 1990s (*Ta Nea*, 24/5/1994: 55; *Oikonomikos Tachydromos*, 14/7/1994: 15; 12/5/1995).

Figure 4.5: Annual fixed investment growth in Greece, Ireland, Portugal, Spain, the EU-15, and OECD (1974-2000).

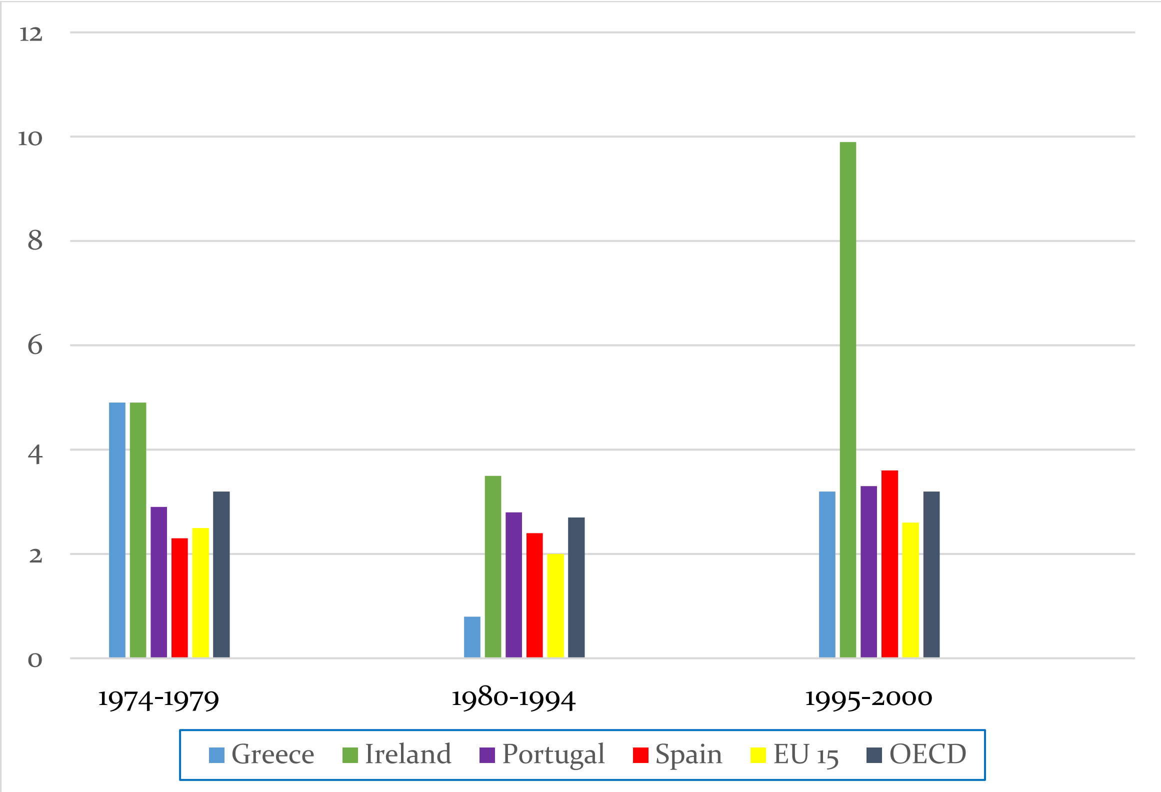


Adapted from: Bryant *et al*. (2001: 4); OECD Historical Statistics 1970-1999.

The BoG adopted the "hard drachma doctrine", raising interest rates and curbing inflation, which fell to 2.1% in 1999 (BoG, 1999: 32; Eurostat, 2000). This policy shift, combined with the removal of foreign exchange controls, boosted the drachma's credibility and increased foreign capital inflows and investment. **Figure 4.5** above shows that investment levels rose during this period, contributing to overall economic growth and convergence with the EU-15. According to the BoG (1998: 23), foreign capital inflows into Greece increased by around 25% in 1997 compared to the previous year; domestic investment rose from approximately 20% in the early 1990s to nearly 25% of GDP by 1999 (BoG, 1997: 55-56; *To Vima*, 27/4/1997: 2; *Oikonomikos Tachydromos*, 22/7/1994: 15; 1/5/1997: 32; 8/5/1997: 33).

Simultaneously, structural reforms stipulated in the EMU accession criteria, such as the abolition of the central banks' (CBs) ability to directly finance government deficits (commonly referred to as PSBR) (TEU, Art. 101; 102, 1992), facilitated a surge in equity capitalisation from 2% of GDP in 1985 to 169% in 1999 (OECD, 2001: 40; Pagoulatos, 2003: 176). **Figure 4.6** demonstrates Greece's steady economic boom between 1995 and 1999 (IMF, 2006: 4-10; OECD, 2001: 24, 30). This period of economic expansion saw Greek GDP growth rates consistently exceed the EU-15 average, contributing to the convergence process (ECB, 1999: 12; Eurostat, 2000: 32).

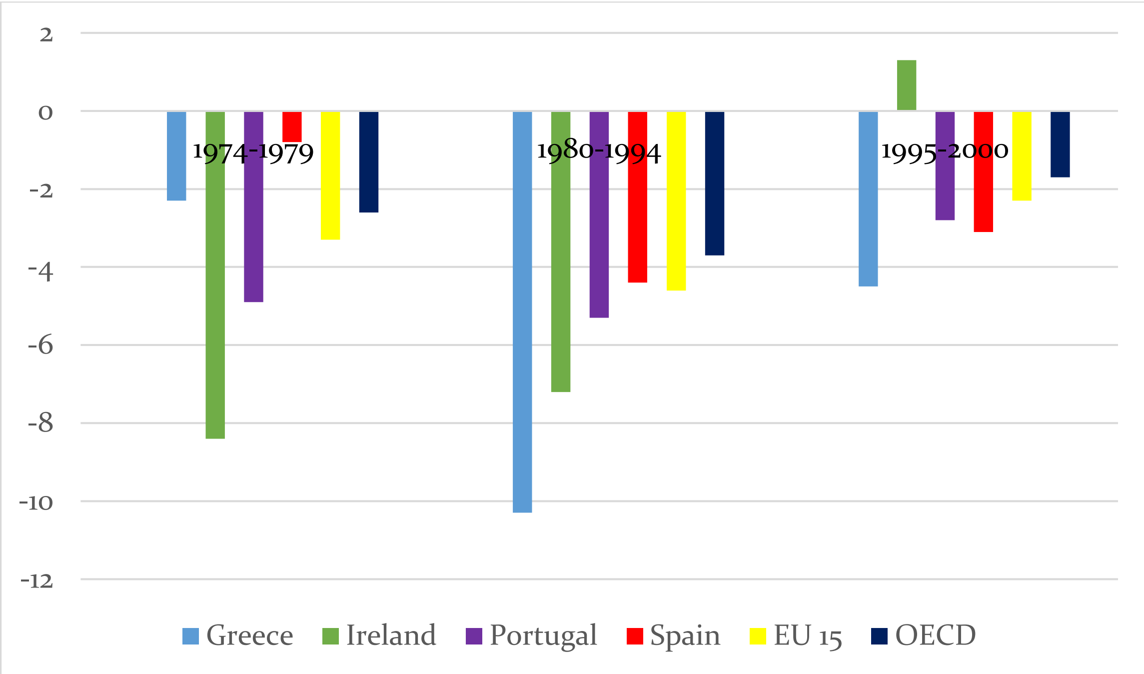
Figure 4.6: Annual GDP growth in Greece, Ireland, Portugal, Spain, the EU-15, and OECD (1974-2000).



Adapted from: Bryant *et al*. (2001: 4); OECD Historical Statistics 1970-1999.

Despite these improvements, Greece failed ECOFIN's assessment for Euro eligibility in May 1998 (Bryant *et al.,* 2001: 28; European Parliament, ECON 106 PE 167.797, 1998: 3). While the general government deficit was reduced to under 1% of GDP in 2000, from about 13.5% in 1993, and 15.9% in 1990 shown in **Figure 4.7** below, the subsequent boom in stock exchange prices also tarnished Greek credibility. Following a 5.4% annual surge between 1995 and 1996, the Athens Stock Exchange (ASE) index climbed by approximately 238.1% between 1997 and 1999 (BoG, 1996, 1997, 1998, 1999), peaking in September 1999 (*Oikonomikos Tachydromos*, 11/11/1999; *Vima*, 13/2/2000). When the bubble burst in September 1999, the index plummeted by around 20%. Speculative attacks targeted the drachma again, focusing on the 'hard peg' to be adopted at the second stage of the Exchange Rate Mechanism (ERM) (*Oikonomikos Tachydromos*, 14/1/1999: 61; *Kathimerini*, 17/9/1999: 35). Consequently, the BoG substantially increased interest rates, and on March 16, 1998, the drachma was devalued by 12.3%, with Greece joining ERM II at a 'locked-in' exchange rate of 353.10 drachmae per euro (BoG, 1999: 2). In January 2000, an irrevocably fixed exchange rate of 340.75 drachmae per euro (€) was established (BoG, 2000: 1), and in June, Greece became the twelfth EU member state to adopt the euro (OJ JEU, L 167, 2000).

Figure 4.7: General government deficit as a percentage (%) of GDP in Greece, Ireland, Portugal, Spain, the EU-15, and OECD (1974-2000)



Adapted from: Bryant *et al*. (2001: 4); OECD Historical Statistics 1970-1999.

Although Greece joined the EMU, the country only met two of the Maastricht Criteria's conditions (see **1.1.III**). Firstly, Greece reduced its inflation rate to 2.6% in 2000, achieving the price stability requirement, as the reference value was 2.7% (Eurostat, 2001). This marked an improvement from 4.7% in 1998 and 3.4% in 1999 (OECD, 2019). Secondly, Greece maintained its long-term interest rates at 6.4% in 2000, within the required limits, with a reference value of 7.8% (Eurostat, 2001), representing a significant decrease from 10.2% in 1998 and 8.8% in 1999. However, Greece faced considerable challenges in fulfilling the remaining three criteria (see **1.1.III**). First, although Greece reported a 1.8% GDP budget deficit in 1999, it was later revealed that the government manipulated the data (OECD, 2010). The budget deficit was 3.4% in 1999 and increased to 4.1% in 2000, exceeding the 3% threshold. Second, Greece's public debt in 2000 was 103.7% of GDP (Eurostat, 2001), surpassing the 60% debt-to-GDP Maastricht criterion. The Greek debt-to-GDP ratio remained above 60% since the early 1990s, peaking at 111.6% in 1996 before marginally declining in subsequent years (World Bank, 2021). Third, Greece participated in ERM II for only 14 months, rather than the required minimum of two years. Consequently, the exchange rate criterion was effectively met by default when Greece joined the EMU (Malkoutzis, 2011). The introduction of the Euro made the criterion less relevant, as the single currency's exchange rate applied to all Eurozone countries (Gibson *et al.,* 2012). Thus, Greece's EMU entry in 2001 was tainted by its failure to meet all Maastricht criteria, as it struggled to control its government budget deficit and public debt levels. Furthermore, the country's adherence to the exchange rate criterion was unsatisfactory.

In the immediate run-up to Greece's euro accession, the PASOK government, led by Costas Simitis, pursued fiscal restraint. This decision earned political approval from its EU peers, masked accounting tricks, and hidden debt transactions. Additionally, the capitalisation of interest-rate payments was miscalculated in the current account deficit. Debts from state-owned enterprises were kept off the official budgetary record, with a public enterprise (DEKA) established to purchase these corporations' stocks and bonds, thus reducing the wider public sector's documented debt (*Oikonomikos Tachydromos*, 11/11/1999: 30). A collaboration between the Simitis government and Goldman Sachs saw a swap of a €10 billion yen-denominated loan, which reduced its nominal value by €2.8 billion, with Goldman Sachs receiving annual payments of €360 million until 2019 (*The Guardian*, 18/02/2010).

Despite these issues, Greece's entry into the EMU bolstered its credibility in international financial markets, evidenced by the convergence of its debt yields. However, systemic issues of state interventionism, regulatory burdens, and disjointed corporatism within the Greek economy remained unaddressed (see **2.2.III**; **3.3.III**; **4.1.I**; **4.3.III**). The EMU regime's discipline, its "one size fits all" policy and its "single interest rate" was seen as an implicit guarantee that the ECB would repurchase sovereign bonds from all member countries on identical terms (EP, 2009: 34). Consequently, countries like Greece, Spain, Italy, and Portugal, despite being prone to the original sin (see **1.3.I; 4.1.I; 4.2.II**) saw their bonds treated on par with the German Bund. This semblance of monetary stability enabled Southern European economies access to international capital markets at low rates, inciting financial euphoria (Lane, 2012: 56-57).

The following section engages with the period of economic euphoria following Greece's immediate entry into the EMU.

4.1.III Greece's Journey in the Euro (2001–2007)

The previous subsection provided an in-depth analysis of the Greek economy during the 1990s, underlining the role of conditionality, credibility, and external dependence as key aspects that shaped the country's economic landscape. The importance of these factors was exemplified through the lens of substantial external financial aid from the EU, the questioned credibility of the Greek government due to continued fiscal imprudence, and the country's susceptibility to global financial market fluctuations. As Greece entered the Eurozone in 2001, these structural issues remained largely unaddressed, setting the stage for the economic challenges of the subsequent years.

This section focuses on the 2001-2007 period, a time of significant changes and new challenges for the Greek economy. Despite being a sign of nominal progress, I will explore how the country's entry into the Eurozone did not fundamentally alter the dynamics at play during the 1990s. The issues of conditionality, credibility, and external dependence will remain central themes as I analyse how they influenced Greece's economic trajectory during this period.

The adoption of the single currency entailed a multitude of compromises. For Greece and other Eurozone countries, credibility was gained through fixed exchange rates and foreign capital access; however, they forfeited monetary policy controls like adjusting interest and exchange rates to manage economic downturns, resorting instead to modifying domestic prices and wages to enhance competitiveness (Begg *et al.,* 1998: 8; Dyson, 2002).

Frieden et al. (1998: 14) argue that pursuing fiscal discipline, moderate-income policies, and measures to boost international competitiveness are essential within a fixed exchange rate regime. Nonetheless, Greece demonstrated vulnerabilities, with debt from the 1980s and 1990s reaching around 104% of GDP by 2000 (Eurostat, 2022). Salary increases during the 1990s exacerbated fiscal imbalances and undermined competitiveness, reflected in Greece's drop in the Global Competitiveness Index ranking dropping from 47th in 2000 to 56th in 2004 (WEF, 2000; 2004) and its 92nd position in the 2004 World Bank's Ease of Doing Business Index (World Bank, 2004).

In 2004, Kostas Karamanlis's centre-right New Democracy won the election, promising fiscal restraint but increasing public-sector wages and pensions instead, causing General Government expenditure to surge by 12.8% (*Kathimerini*, 15/6/2004; 16/5/2005; EC, 2006). The government engaged in clientelist practices, awarding public-sector contracts to party loyalists (*Kathimerini*, 27/2/2005; Makrydimitris *et al.,* 2009: 42-43), which weakened Greece's fiscal position.

The 2004 Olympic Games also put a strain on Greece's economy, costing approximately €9 billion (Preuß *et al.,* 2019: 60-69; Kollias *et al.,* 2021: 531-548 more than double the initial €4.5 billion budget and further compounded by a lack of long-term planning for the facilities (Makrydimitris *et al.,* 2009: 59-61; Karamichas, 2013: 19-21). Additionally, military spending increased from 2.5% of GDP in 1999 to 3.1% in 2004, significantly above NATO's 1.9% average (SIPRI, 2005).he government deficit-to-GDP ratio reached 6.1% by the end of 2004, surpassing budget forecasts by 1.2 percentage points (Eurostat, 2004: 3), which led to the EC initiating an infringement procedure against Greece due to unchecked social security expenditure (EC, IP/04/1527, 2004; OJ L 389, 2004: 25–26).

The disclosure of "hidden debts" within the broader public sector amounting to a government deficit-to-GDP ratio of -4.6% and debt-to-GDP ratio of 109.9%

(Eurostat, 2004: 61-62; *To Vima*, 31/1/2005: 1), severely undermined Greece's credibility. The issues surrounding Greek statistics resurfaced in the 2010s, exacerbating economic challenges and eroding confidence in fiscal management (Thomakos *et al.,* 2010: 35-37).

The EU's launch of the Excessive Deficit Procedure (EDP) against Greece (EC, 2004: 5) sparked debates over Greece's EMU accession criteria compliance, resulting in headlines like "Greece Admits Faking Data to Join Europe" (*NYT*, 23/9/2004: 10). Psalidopoulos (2019: 364) claims that while domestic political considerations drove the audit, the damage was greater than anticipated, leading to the infamous 'Greek statistics' debacle that resurfaced with a vengeance in the post-2008 period (see **4.2**). As government revenues stagnated and pressures from Brussels mounted, the Karamanlis government raised the value-added tax (VAT) from 18% to 19% in March 2005 (*Kathimerini*, 20/03/2005).

The Karamanlis government missed several opportunities between 2004 and 2007 to mitigate these issues, as Greece experienced one of the highest GDP growth rates in the Eurozone primarily due to exogenous factors like low-interest rates (BoG, 2014: 13). Regrettably, this economic boon was squandered as the government failed to align fiscal policy towards primary surpluses and reducing indebtedness.

By 2009, general government spending had ballooned by approximately 31.5% from €84.9 billion in 2004 to €111.7 billion, and the budget deficit escalated from 7.5% of GDP in 2004 to 15.4% (Eurostat, 2010). Additionally, the government's distribution of patronage through public-sector appointments and promotions fuelled public-sector employment growth (*To Vima*, 28/03/2004; *Kathimerini*, 1/12/2004). In May 2007, a new bill granted Cabinet Ministers the authority to appoint three out of five members to public-sector selection committees (*To Vima*, 27/5/2007), raising concerns about the integrity and impartiality of the appointment process. The Institute of Labour (INE) estimated that, in 2007, 1,018,000 individuals were employed in the wider public-sector, corresponding to 36.2% of the employed population (*inegsee.gr*, 2008: 26). However, the OECD (2021) reported a lower percentage of general government employment as a share of total employment in Greece in 2007, at 23.1%.

Between 2001 and 2007, the Greek economy experienced average growth rates of 3.6% per year (BoG, 2014: 13), primarily driven by the private consumption boom. Successive governments failed to exploit the favourable financial conditions to shift economic policy from the deficit- and debt-fuelled growth paradigm. During this period, Greece's public debt-to-GDP ratio increased from 98.6% in 2004 to 129.7% in 2009 (Eurostat, 2010), and foreign-held debt constituted 78.2% of Greece's total debt by 2009. The Karamanlis government's expansionary fiscal policy and lack of substantial fiscal reforms, coupled with the post-2008 global financial crisis, culminated in the sovereign debt crisis of the 2010s.

	Current Account Surplus				Net Exports				Net Current Transfers plus Net Primary Incomes			
	1995	1996-2000	2001-2008	2009-2014	1995	1996-2000	2001-2008	2009-2014	1995	1996-2000	2001-2008	2009-2014
Spain	-1.2	-2.0	-6.7	-1.6	-1.0	-1.1	-4.1	0.8	-0.2	-0.9	-2.6	-2.4
Greece	-2.8	-5.7	-11.7	-7.3	-8.3	-9.1	-10.6	-5.9	5.5	3.4	-1.1	-1.4
Ireland	2.6	1.2	-2.3	1.7	10.9	12.0	12.4	19.2	-8.3	-10.8	-14.7	-17.5
Italy	2.0	1.5	-1.1	-1	3.7	2.8	0.1	0.4	-1.7	-1.3	-1.2	-1.4
Portugal	-3.4	-7.7	-9.8	-4.5	-6.4	-9.1	-8.5	-3.0	3.0	1.4	-1.3	-1.5

Figure 4.8: The current account in Greece and other Peripheral Eurozone Countries 1995-2014, as a percentage (%) of GDP.

Adapted from: AMECO Database, (2020).

Like PASOK, ND exacerbated debt overhang and external dependence (see **1.3.II**), as evidenced by the triple deficits between 1995 and 2008, captured above in **Figure 4.8**. Greece's current account deficit surged by over seventeen percentage points, the share of imports relative to GDP rose by almost sixteen percentage points, and the current account balance deteriorated by thirteen percentage points (EC, 2012; Eurostat, 2021; World Bank, 2021).

Greece's reliance on debt-fuelled growth and state expenditure, coupled with the lack of effective fiscal reforms, resulted in an unsustainable economic trajectory (Eurostat, 2010). It overlooked structural issues, evidenced by the escalating budget deficit and debt-to-GDP ratio. This left the Greek economy vulnerable, particularly to the global financial crisis of 2008.

The shift in Greece's public debt composition amplified its economic issues. Initially, two-thirds of Greek public debt was held by local banks; however, foreign loans altered this to a burdensome foreign debt (Reinhart and Trebesch, 2015). Foreign-held debt increased from 36.9% in 2001 to 78.2% by 2009 (BoG, 2010), creating a bubble economy dependent on foreign credit.

Greece's growth strategy prioritized public infrastructure and procurement investments, discouraging export-oriented activities. In 2000, the export share of Greek GDP was a mere 19.1%, far below the Eurozone average of 36.9% (World Bank, 2001). Public-sector wages rose by approximately 50% between 1999 and 2007 (OECD, 2009), causing private-sector wages to outpace productivity. Consequently, the current account deficit expanded from 0.8% of GDP in 1995 to 15.1% in 2008 (IMF, 2010), reflecting Greece's growing external sector imbalance.

Attempts to reduce public debt and achieve fiscal consolidation during the 2000s were inadequate. Public debt surged to 146% of GDP by 2009 (IMF, 2010: 18) due to the failure to implement sustainable fiscal policies, structural reforms, and the influence of global financial crises. Greece trailed other EU nations in regulatory reform and market liberalisation (OECD, 2009: 27).

Resilient Greek clientelism persisted until the 2009 fiscal crisis. Strategies were developed to adapt to the reform process, as indicated by increased public expenditure, especially on wages and pensions, from 2004 to 2009 (IMF, 2010: 18). This adjustment aligned with Greece's political economy model, allowing political parties to retain dominance in the economy and society.

Despite external influences, the core characteristics of Greece's political economy endured. This included inconsistent reform efforts and a commitment to a clientelist framework, as highlighted by Greece's low 2009 Corruption Perception Index ranking (Transparency International, 2009). Greece consistently failed to comply with the Stability and Growth Pact (SGP) on fiscal discipline. Empirical evidence highlights this: Greece consistently violated the SGP's 3% deficit-to-GDP ratio limit between 1999 and 2007 (Eurostat, 2008). Moreover, Greece's public debt levels exceeded the SGP's 60% debt-to-GDP ratio threshold for the entire period from 2000 to 2007, indicating inadequate fiscal consolidation (World Bank, 2008).

In anticipation of the 2008 financial crisis, Greece adopted austerity measures. However, structural reforms were often adjusted to safeguard the ruling party's constituencies, leading to the misuse of resources and delaying essential reforms. Greece repeatedly breached the SGP's 3% deficit-to-GDP ratio limit from 1999 to 2007 (Eurostat, 2008), and its public debt levels consistently exceeded the SGP's 60% debt-to-GDP ratio threshold from 2000 to 2007 (World Bank, 2008).

Finally, the Greek government was criticized for manipulating fiscal data and lacking transparency (EC, 2004; 2009). This masked Greece's severe macroeconomic and fiscal imbalances and delayed vital reforms. Collectively, these factors led to Greece's fiscal challenges, culminating in a severe debt crisis post-2008. This analysis emphasizes the intertwined economic, political, and social factors precipitating Greece's financial struggles and underlines the need to consider these dimensions when discussing potential recovery strategies.

4.1.IV Conclusion

4.1 addressed SQ1 by identifying the fundamental features characterising Greek economic development from 1974 to 2008. It highlighted that the financial turbulence of the 1970s and Greece's European accession challenged the Greek economy's state-led and protectionist growth model. It stresses that the launch of the Single Market exerted pressure on the Greek economy's productive base and aggravated the country's external dependence on energy, raw materials, and agricultural goods (Alogoskoufis, 1995). My underlying argument is that the cross-party consensus favouring joining the EMU marked a turning point (see **2.1.IV**) in Greek economic policymaking. The concern of being excluded from "core Europe" and the necessity to adopt an external anchor to generate credibility in international markets facilitated a more coordinated and focused approach to addressing economic challenges while further integrating Greece into the European economic framework.).

Despite these efforts, the democratisation and industrialisation process in Greece led to the expansion of state-sponsored protectionism and dramatically increased public expenditure (see **2.2.III**; **4.3.III**). This situation evolved into a vicious cycle of growing external dependence, stagnant growth rates, rising unemployment, 'triple deficits', and rampant inflation, or 'stagflation', by 1980 (Katsimi and Moutos, 2010). In the mid-to-late 1980s, Greece signed stabilisation loans amidst political instability and sought to address these challenges by participating in the European Monetary System. Key conditionalities stipulated in these programmes included reducing public spending, increasing revenue collection, and restructuring the public sector. This period set the stage for signing the Maastricht Treaty and the country's commitment to meet the requirements for EMU membership, further highlighting the importance of economic reforms and regional integration.

4.1.II covered the period between 1993 and 2000. Amid concerns about the country's potential exclusion from core Europe, Greek policymakers implemented long overdue fiscal and monetary reforms to regain credibility in international markets by "tying their hands" (Alesina *et al.,* 1990) to an external anchor, EMU (see **1.1.II; 3.1.III; 4.1.III**). However, it argues that Greece joined the Eurozone without fully meeting the Maastricht criteria (**1.1.III**), much less addressing its deep-seated competitiveness issues or overhauling its debt-fuelled and stat-led economic paradigm. The revision of Greek statistical figures, described as the Greek statistics fiasco, raised serious concerns about the credibility of the accession process and increased Greece's external dependence. The unsustainable debts, enduring imbalances, and the country's *credibility deficit* resurfaced with a vengeance in the post-2008 period. Furthermore, the architectural flaws of the Eurozone, combined with its inadequate monitoring and surveillance as well as crisis management mechanisms, exacerbated the challenges faced by Greece and its Eurozone peers.

4.1.III investigated the years between 2001 and 2007, marked by stability and dynamic, consumption-driven growth, with Greece's GDP growth averaging 4.1% (Pisani-Ferry, 2013; Gourinchas *et al.,* 2016). However, the relaxation of fiscal and credit policies after 2002, combined with the rapid financial derailment under the New Democracy Government (2004-2009), resulted in "triple deficits" (fiscal, trade, and balance of payments) (see **1.3.II**) and a burdensome debt overhang (debt-to-GDP ratio at 146.2% in 2010), inherited from the 1980s and 1990s, but expounded during this period. Echoing the works of Eichengreen (2015: 87) and Pagoulatos (2018: 3), I stressed that the euro instilled domestic complacency and a deceptive façade of perpetual prosperity. This section highlighted that these triple deficits ultimately laid the groundwork for Greece's debt crisis in the 2010s (see **4.2.I**), emphasising the critical role of *credibility* and *external dependence* in shaping the country's economic trajectory. I argued that Greece's severe imbalances and credibility deficit necessitated more demanding conditionalities and increased external intervention in the 2010s. After engaging with the increase in public expenditure and how it worsened the fiscal situation, I claimed that the crisis in the 2010s exposed the shortcomings of the debt-fuelled and state-expenditure-based economic strategy, in conjunction with the absence of necessary fiscal reforms, which in turn, led to an increasingly unsustainable trajectory.

The following section turns its attention to the outbreak of the financial-cum-economic shock in the aftermath of the collapse of Lehman Brothers in 2008, whose aftershocks fuelled the Eurozone Crisis in the 2010s.

4.2 The Global Financial Crisis of 2008 & Greek Dimension

The previous section undertook a comprehensive exploration of the key features characterising Greece's political and economic systems from 1974 to 2008, highlighting pivotal moments that shaped the country's economic trajectory. I contended that the economic pressures of the 1970s, coupled with Greece's integration into Europe, propelled a significant shift from the state-led and protectionist growth model that dominated Greece's economic landscape. However, as I demonstrated, the democratisation and industrialisation process paradoxically intensified state-sponsored protectionism, escalated public spending, and exacerbated 'stagflation' by the 1980s. In the mid-1990s, I argued that the Greek policymakers, driven by the fear of marginalisation from core Europe, embarked on a path of rigorous fiscal and monetary reforms. Despite these efforts, I highlighted that Greece's admission to the Eurozone occurred without fully addressing its inherent competitiveness issues or restructuring its debt-fuelled, state-centric economic paradigm. I suggest that this set the stage for the 'Greek statistics fiasco', which underscored Greece's external dependence and sowed the seeds for the subsequent debt crisis. Finally, examining the period between 2001 and 2007, I focused on the deceptive façade of prosperity brought about by the euro, which ultimately masked the simmering 'triple deficits' and the debt overhang. I underlined that this illusion of prosperity, coupled with the government's lax fiscal and credit policies, paved the way for Greece's severe debt crisis in the 2010s. Throughout this analysis, I emphasised the pivotal role of credibility and external dependence, arguing that Greece's debt crisis was essentially an outcome of the long-term neglect of necessary fiscal reforms and the shortcomings of a debt-fuelled, state-driven economic strategy.

This section charts the outbreak and wide-ranging aftershocks of the sudden stop incited by the Lehman Crash of 2008, which degenerated into the *Eurozone crisis* by the 2010s. Specifically, it addresses the following sub-questions (SQs):

- **SQ1** *What were the core features of the Greek political and economic systems in the period preceding the outbreak of the Eurozone crisis in the 2010s?*
- **SQ2** *How did the Eurozone Crisis of the 2010s manifest itself domestically and internally?*
- **SQ3** *How did Greece's international creditors respond to its economic predicament, and what was their underlying recipe to mitigate the effects of the post-2008 Eurozone crisis?*

While addressing **SQ2** and **SQ3**, it also offers insights which will be analysed in a more comparative and wholesome manner in **Chapter 5** and respond to the fundamental research question (RQ) guiding this thesis, which is the following:

RQ1 Which factors shaped Greece's immediate response to the post–2008 Global Financial Crisis?

4.2.I examines the global fallout of Lehman Brothers' bankruptcy, contextualising the aftershocks in Greece and the Eurozone. It analyses solutions devised between May 2010 and November 2011, specifically the adjustment programme and the conditions and targets in the first Memorandum of Understanding (MoU). I argue that Greek-specific idiosyncrasies and poor credibility played a crucial role in the framing of the crisis and a misinterpretation of its problems by international policymakers. Like Gourinchas *et al.* (2017), I characterise the post-2008 crisis in Greece as a trifecta shock: a sudden stop, a banking crisis, and a de facto currency crisis.

First, the sudden stop concerns the abrupt halt of capital inflows into the Greek economy due to global financial turmoil and growing concerns about Greece's fiscal sustainability (Calvo, 1998: 175-194; Reinhart and Rogoff, 2009: 69-80). This sudden stop led to a severe liquidity shortage as foreign investors withdrew funds and became reluctant to provide financing. Second, the banking crisis emerged due to the sudden stop, Greek banks' exposure to high levels of sovereign debt, and the deteriorating economic environment (Acharya and Steffen, 2015: 495-518; Lane, 2012: 57-78). The weakening of banks' balance sheets decreased asset value and eroded public confidence, resulting in a banking crisis intensifying Greece's economic troubles. Third, Eurozone countries could not devalue their currency to restore competitiveness and mitigate the sudden stop and banking crisis impacts (Eichengreen, 2010: 61-75; Obstfeld, 2013: 141-168). As an EMU member, Greece could not use independent monetary policy or currency depreciation to address its economic challenges, exacerbating the crisis.

4.2.II investigates the period between December 2011 and December 2014, when the Greek crisis gained a centrifugal European dimension, prompting Grexit speculations. I critically examine the debt restructuring process, including the Private Sector Involvement (PSI) scheme, which resulted in the Second Greek Adjustment Programme, and the transfer of Greece's debt from the private to the official sector. Despite a nominal decrease in Greek debt, the PSI increased external dependence and deteriorating economic conditions. I also emphasise the reinforcing role of politics and economics during this period, creating a 'political economy doom loop', resulting in a crisis of confidence, an impediment to necessary reforms, and an aggravated Greek credibility deficit. Additionally, the pro-cyclical and recessionary nature of the Second Adjustment Programme severely impacted Greece's socioeconomic fabric, with unemployment peaking at 27.5% in 2013 (Eurostat, 2014). The second MoU featured quantitative targets and controversial austerity measures (EC, 2012). Although the crisis generated consensus for two political antagonists to govern together in a three-party coalition until July 2013, this period saw polarisation and a rise in anti-MoU sentiment. As Spain and Portugal exited their programmes (EC, 2014), political deadlock surrounding the election for the Presidency of the Republic resurfaced Grexit speculations, exacerbating Greece's credibility deficit.

This section emphasises the mutually reinforcing role of politics and economics during this period, which I describe as the 'political economy doom loop.' This phenomenon manifested in a 'crisis of confidence,' impeding necessary reforms and exacerbating Greece's credibility deficit (see **4.3.I**; **4.3.IV**). Consequently, persistent weaknesses in Greek credibility revived aggressive Grexit speculations and heightened bond market contagion fears (De Grauwe, 2012).

4.2.III examines the rise of Alexis Tsipras and the significant rupture this caused with international creditors. I highlight the government's inconsistent approach to negotiations and the credibility hit when the government called a referendum on the bailout programme. This period saw Greece's credibility deficit worsening, a resurgence of capital flight, and the introduction of capital controls. I delve into the signing of the third MoU, which, while echoing previous programmes' austerity, had more parliamentary support and focused on structural reforms. Finally, I scrutinise the complexities and challenges of Greece's efforts to deal with international creditors and implement necessary reforms. I argue that the adjustment programmes inadvertently increased Greece's foreign indebtedness, despite aiming to reduce its debt overhang.

Additionally, Greece made a significant fiscal adjustment during the crisis, turning a 15.1% fiscal deficit in 2009 into a 0.9% primary surplus in 2018, driven by stringent austerity measures. However, these externally-imposed adjustments failed to foster Greece's economic recovery, and projections suggest that pre-crisis GDP levels will only be attained by 2031 to 2034. This thesis contends that these outcomes are due to the inherent limitations of external adjustment initiatives and significant endogenous factors impeding Greece's response to the crisis.

4.2.I The Road to the First Greek Bailout

Between 2002 and 2007, advanced economies, including the US, UK, New Zealand, and the Eurozone, experienced a boom-and-bust cycle (Quinn and Turner, 2020), revealing the global economy’s structural imbalances. A surge in intra-Eurozone lending and borrowing between core (e.g., Germany, France, Netherlands) and peripheral (e.g., Greece, Spain, Italy, Portugal, Cyprus) countries catalysed the Eurozone's economic euphoria.

Peripheral economies like Greece, Spain, and Portugal, which historically grappled with capital shortages and the original sin (see **1.3.II**), secured $2.6 trillion of loans from core Eurozone countries' banks and investors due to the European Central Bank's "single interest rate" policy (Lane, 2012). **Figure 4.9** shows core Eurozone economies enjoying surpluses and export-led boom, while peripheral nations experienced substantial current account deficits and debt overhangs (BIS, 2010: 14; ECB, 2011: 9).

Figure 4.9: The widening gap between *Northern creditors and Southern debtors*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Government Deficit (% of GDP)												
Greece	-4.5	-4.8	-5.6	-7.5	-5.2	-5.7	-6.5	-9.8	-15.7	-10.7	-9.5	-9
Spain	-0.5	-0.3	-0.3	-0.1	1.3	2.4	2	-4.5	-11.1	-9.6	-9.6	-10.6
Ireland	0.9	-0.4	0.4	1.4	1.6	2.9	0.2	-7.4	-13.7	-30.6	-13.1	-8.2
Portugal	-4.8	-3.4	-3.7	-4	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.3	-6.4
Germany	-3.1	-3.8	-4.2	-3.8	-3.3	-1.6	0.2	-0.1	-3.1	-4.2	-0.8	0.1
Italy	-3.1	-3.1	-3.6	-3.5	-4.4	-3.4	-1.6	-2.7	-5.5	-4.5	-3.8	-3
France	-1.5	-3.1	-4.1	-3.6	-2.9	-2.3	-2.7	-3.3	-7.5	-7.1	-5.3	-4.8
EU average	-1.5	-2.6	-3.2	-2.9	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-3.9
Gross Public Debt (% of GDP)												
Greece	104.7	102.6	98.3	99.8	110	107.8	107.3	112.9	129.7	148.3	170.3	156.9
Spain	55.6	52.6	48.8	46.3	43.2	39.7	36.3	40.2	54	61.7	70.5	86
Ireland	34.6	31.8	31	29.5	27.2	24.6	24.9	44.2	64.4	91.2	104.1	117.4
Portugal	53.8	56.8	59.4	61.9	67.7	69.4	68.4	71.7	83.7	94	108.2	124.1
Germany	59.1	60.7	64.4	66.2	68.5	68	65.3	66.8	74.5	82.5	80	81
Italy	108.3	105.4	104.1	103.7	105.7	106.3	103.3	106.1	116.4	119.3	120.7	127
France	57.1	59.1	63.3	65.2	66.8	64.1	64.2	68.2	79.2	82.4	85.8	90.2
EU average	83	80.1	74.5	62.2	58.9	61.6	62.9	62.3	61.9	60.4	61	61.8
Current account deficit (%of GDP)												
Greece	-7.2	-6.5	-6.5	-5.8	-7.6	-11.4	-14.6	-14.9	-11.2	-10.1	-9.9	-2.4
Spain	-3.9	-3.3	-3.5	-5.2	-7.4	-9.0	-10.0	-9.6	-4.8	-4.5	-3.8	-1.1
Ireland	-0.6	-1.0	0.0	-0.6	-3.5	-3.6	-5.3	-5.6	-2.3	1.1	1.2	4.4
Portugal	-10.3	-8.2	-6.4	-8.3	-10.3	-10.7	-10.1	-12.6	-10.9	-10.6	-7.0	-2.0
Germany	0.0	2.0	1.9	4.7	5.1	6.3	7.4	6.2	6.0	6.3	6.2	7.0
Italy	0.3	-0.4	-0.8	-0.3	-0.9	-1.5	-1.3	-2.9	-2.0	-3.5	-3.1	-0.4
France	1.7	1.0	0.4	0.5	-0.5	-0.6	-1.0	-1.7	-1.3	-1.3	-1.8	-4

Adapted from: Eurostat, (2021).

In 2007, Germany's current account surplus peaked at 7.5% of GDP, contrasting with Greece's 14.4% deficit (OECD, 2008). By 2008, Greek private sector loans represented 103% of GDP (IMF, 2009), whereas Germany's were 87% (World Bank, 2009), signifying a lower debt burden. Greece's reliance on foreign capital amplified its external vulnerability, with its 2008 GDP deficit reaching 15.9%, higher than Spain's 9.6% and Portugal's 12.1% (Eurostat, 2008).

Tourism (accounting for 18% of GDP in 2008) intensified Greece's external dependence (WTTC, 2008). Greece required economic diversification, structural reforms, and improved domestic production and competitiveness (OECD, 2009). Greece also had issues with investment attractiveness (WB, Doing Business 2010: 5, 9) and credibility due to bureaucratic obstacles and excessive regulatory burdens, or "red tape" (ELSTAT, 2021).

The bankruptcy of Lehman Brothers in 2008 triggered a credit panic and a sudden stop episode (Calvo *et al.,* 2011). Like other Eurozone nations, Greece grappled with liquidity issues due to the sovereign-bank doom loop (Bastasin, 2015: 84; Farhi and Tirole, 2018: 1788). Despite capital shortages to cover debt interest, Greek PM Karamanlis and Finance Minister Alogoskoufis claimed that the Greek economy and banking system were "shielded" from the international financial meltdown, underscoring that he did not foresee a crisis for Greece because the country was not exposed to the subprime crisis permeating the US (ANA, 2/1/2008; *euro2day.gr*, 2/1/2008).

In 2009, Finance Minister Papathanassiou disclosed a 10% GDP deficit and €300 billion debt (BoG, 2009: 11; EC, DG ECOFIN, 2010: 71). Greece's credit rating was downgraded in December 2009 (Reuters, 2009), escalating borrowing costs and triggering the European sovereign debt crisis. The Commission initiated EDP proceedings in April 2009 (EC, 2009: 21-22, and 45), and the IMF predicted Greece's debt ratio to reach 400% of GDP by 2040 (IMF, 2009: 15).

The Karamanlis Government's defeat by PASOK in October 2009 (*ekloges-prev.singularlogic.eu*, 2009) led to the revelation of a 15.9% GDP budget deficit (Eurostat, 2010). Credit rating agencies downgraded Greece's sovereign debt, further deepening the crisis (Fitch Ratings, 8/12/2009; Standard & Poor's, 2010; Moody's, 2010). The Papandreou government implemented austerity measures to reduce the budget deficit and regain market confidence (Hellenic Parliament, 2010). However, in April 2010, Greece requested financial assistance from the EU and IMF (*The Guardian*, 2010). **Figure 4.10** below illustrates ELSTAT's revision of Greece's 2009 budget deficit to €36.2 billion, raising it from 6.2% to 15.4% of GDP. The public debt overhang to GDP ratio was corrected from 99% to 115% (BoG, 2010: 3), further damaging Greece's credibility (INT-6; PVT-COMM-6).

Figure 4.10: Revisions of Statistical data between November 2010 and April 2010

	2006	2007	2008	2009
November 2010 revision				
Deficit as a percentage (%) of GDP	-5.7	-6.4	-9.4	-15.4
Debt as a percentage (%) of GDP	106.1	105.0	110.3	126.8
April 2010 revision				
Deficit as a percentage (%) of GDP	-3.6	-5.1	-7.7	-13.6
Debt as a percentage (%) of GDP	97.8	95.7	99.2	115.1
Change (Nov-Apr)				
Deficit as a percentage (%) of GDP	-2.1	-1.3	-1.7	-1.8
Debt as a percentage (%) of GDP	8.3	9.3	11.1	11.7

Adapted from: Hellenic Statistical Authority (ELSTAT), (2010).

The soaring deficits in the current account and budget ('dual deficits'), the onerous Greek debt overhang, and the rise in interest rates derogated its solvency and raised questions about the country's default (Stratfor, 23/4/2010; TVXS.gr, 23/4/2010). Whereas Greece was contracting loans issued in its currency, it could not directly control the ECB's "one size fits all" monetary policy, much less depreciating its liabilities via inflation. The fundamental problem confronting the Eurozone was that it lacked: i) a full-fledged crisis management regime; and ii) a comprehensive financial backstop, which US Treasury Secretary Hank Paulson described as the "bazooka" (*The Economist*, 28/8/2008; 8/9/2008; 13/11/2008). Because of the excessive exposure of European and international banks, which was estimated to be approximately $300 billion, captured in **Figure 4.11**, below to avert Greece from degenerating into "another Lehman", the G20 (*FT*, 12/1/2010; *Reuters*, 5/5/2010) mobilised the international lender of last resort (LoLR), the IMF (PVT-COMM-7) (see **1.1.II**).

Figure 4.11: The Eurozone Debt Pyramid (in billions of USD ($).

Exposure to Greece	Type of exposure	Germany	Spain	France	Italy	Other Eurozone	UK	US	World total
	Public Sector	23.1	0.9	27	3.3	22.9	3.6	5.4	92.5
	Banks	10.5	0	3.9	1.2	2.6	2.2	3.1	26.1
	Non-Bank Private	10	0.2	40.2	2.2	14.5	6.0	5.2	83.2
	Total Foreign Claims	43.6	1.1	71.1	6.8	40.1	11.8	13.6	20.2
	Other Exposure	7.4	0.5	40.5	2	7.8	4.7	27.5	95.2
	Total Exposure	51	1.6	111.6	8.8	47.9	16.5	41.2	297.2

Adapted from: Bank of International Settlements (BIS), (2010).

In May 2010, the Troika pledged €110 billion for Greece's "adjustment programme" to restore fiscal sustainability, ensure financial sector stability, and encourage structural reforms (OJEU, C 83, 2010: 3; EC, 2010: 42,50,62). The first Memorandum of Understanding (MoU) aimed to reduce the budget deficit below 3% by 2014 (EC, 2010: 9) and achieve a primary surplus of 6% of GDP by 2015 (EC, 2010: 3). Fiscal consolidation measures of €30 billion or 13% of GDP were implemented between 2010 and 2013 (EC, 2010: 12).

The MoU proposed tax increases and broadening the tax base (EC, 2010: 13-15), while expenditure measures aimed to generate approximately €8 billion in savings (EC, 2010: 8-9, 18, 47). Qualitative conditions included structural reforms, tax evasion reduction, public administration quality enhancement, and governance improvements (EC,2010: 12-13,20-23,24,25,27, and 46). Structural conditionalities involved establishing a Parliamentary Budget Office, a single authority for public-sector wage payments, strengthening the General Accounting Office (GAO), and ensuring the Greek Statistical Agency's institutional independence (EC, 2010: 26, 29).

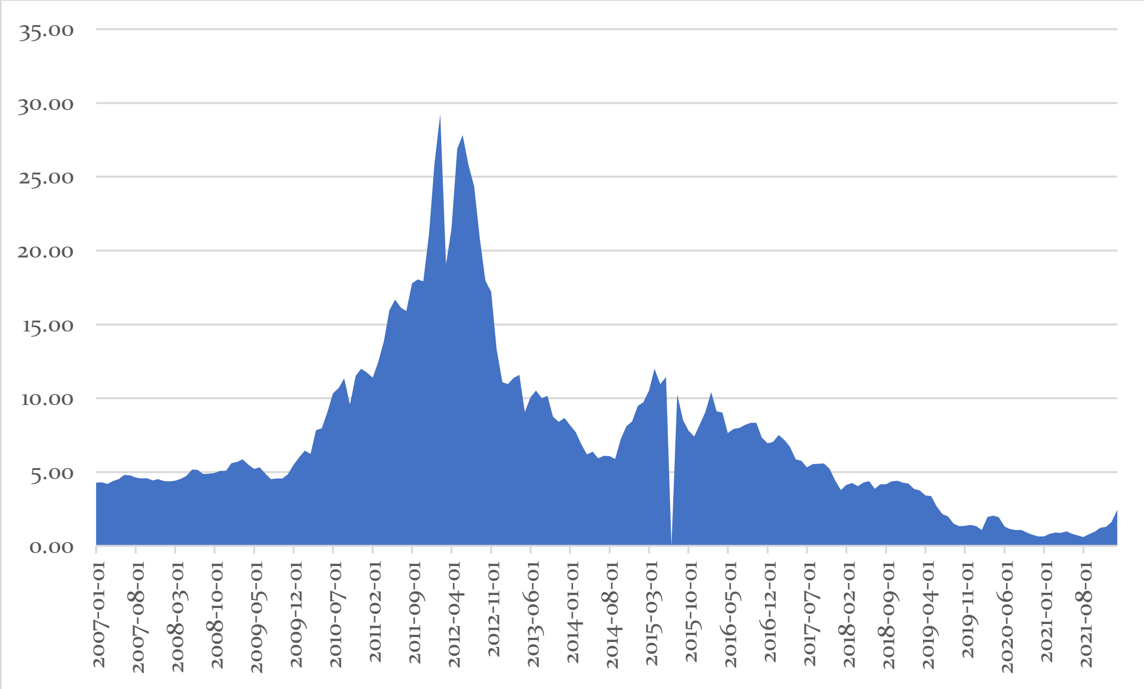
Public administration (PA) efficiency, effectiveness, and transparency were targeted with measures to combat corruption and reinforce the public procurement agency's independence (EC, 2010: 27, 28). The Greek government's input on specific structural conditionalities was significant (Moury *et al.,* 2021: 37). However, due to the imminent threat of default, approving the first adjustment programme was urgent (Venizelos, 2022: 58).

However, the ECB's refusal to purchase Greek bonds endangered the programme's credibility and spurred speculative trading in Government Debt-linked Credit Default Swaps (CDS). Greece's Volatility Index (VIX) increased by 31.7% (WSJ, 2011). European policymakers' slow response exacerbated the situation for Greece and the Eurozone.

The crisis was framed as a by-product of reckless borrowing and fiscal mismanagement (*Bild*, 27/10/2010; 13/10/2011; *FAZ*, 29/4/2010; 5/5/2010). Compromises among Eurozone countries, such as Germany, Finland, and the Netherlands, remained unclear (INT-2; PVT-COMM-6; PVT-COMM-9). The ECB President Jean-Claude Trichet argued that the situation was a global rather than a Euro crisis (ECB, *Press Conference*, 18/11/2010; 3/12/2010).

The first programme expected Greece to regain access to capital markets within two years, but it triggered a Keynesian downward spiral (Tooze, 2019: 282). Unemployment rose, domestic demand collapsed, and incomes decreased. Greek GDP fell by 4.5% in 2010, and the fiscal derailment and foreign debt overhang dampened Greek credibility (PVT-COMM-3). Chancellor Angela Merkel conceded that Greece's 2001 Eurozone admission was not sufficiently considered (DW, 2010). Rising interest rates on sovereign bonds and Greece's bank borrowing problems evolved into a public borrowing crisis (IMF, 2010b: 2). **Figure 4.12** shows high yields of Greek public bonds between 2007 and 2022, with a spike in November 2011, highlighting political turbulence, polarisation, and Greece's credibility deficit with European lenders and international creditors (INT-2; INT-4; PVT-COMM-1).

Figure 4.12: Monthly Long-term ten-year yields of Greek Government Bonds 2007-2022 (in percentage points %).



Adapted from: Federal Reserve Bank of St. Louis (2022); OECD (2022).

The analysis suggests that the first adjustment programme's emphasis on rapid fiscal consolidation was due to the Troika viewing the Greek crisis as a liquidity shock rather than insolvency. This misdiagnosis led to an overemphasis on immediate, short-term solutions such as financial aid and rapid fiscal adjustment, while more entrenched structural weaknesses in the Greek economy were overlooked, as was the need to reprofile or restructure Greek debt. Consequently, the management of the crisis was significantly affected. Ultimately, this analysis underscores the importance of correctly identifying the nature of a crisis to implement effective, long-term solutions.

The next sub-section turns its attention to the second phase of the Eurozone Crisis when Greece's political instability fuelled speculations surrounding Greece's exit from the Eurozone.

4.2.II On the Brink of 'Grexit' (2011-2014)

The preceding sub-section explored the complex dynamics underpinning the Greek economic crisis, underlining the interplay of credibility, conditionality, and external dependence. Scrutinising the boom-and-bust cycle of 2002-2007 and the subsequent sudden stop episode in 2008 underscored Greece's reliance on foreign capital and its susceptibility to external shocks. The analysis highlighted the crippling effects of Greece's 'dual deficits', the soaring debt burden, and the country's inability to control the ECB's "one size fits all" monetary policy. It further revealed the flawed approach of the Troika, which treated the crisis as a liquidity problem rather than insolvency, leading to a focus on short-term fixes at the expense of addressing structural weaknesses. This analysis emphasises the importance of credibility in international financial relationships, the role of conditionality in financial aid packages, and the risks of excessive external dependence, underlining the need for a more nuanced understanding of these factors in future crisis management.

This sub-section provides a detailed narrative of Greece's debt crisis from 2010 to 2014, underscoring the intricate interplay of conditionality, credibility, and external dependence. It begins with the Troika's €110 billion adjustment programme, an intervention shaped by conditionalities designed to restore fiscal stability, ensure financial sector stability, and promote structural reforms. However, I argue that these conditionalities, while necessary, fuelled political instability, culminating in the formation of a 'National Unity Government' to oversee Greece's debt restructuring.

The implementation of the Private Sector Involvement (PSI) initiative signifies a crucial turning point, instigating a shift in creditor composition and fundamentally altering debt management dynamics. However, this transition is not without its challenges. In a climate of political instability, and with the failure of mainstream parties to form a coalition government, Greece's credibility with international creditors was undermined. This credibility deficit, I contend, added a layer of complexity to Greece's precarious position within the Eurozone and that the PSI and the second programme yielded mixed results. Despite some nominal reduction in Greek debt, these initiatives failed to adequately address Greece's solvency issues, nor did they successfully reduce its external financial dependence. I argue that this, in turn, intensified the domestic credit crunch and budget deficit, thus further hampering Greece's recovery from the crisis.

In May 2010, the Troika pledged €110 billion to mitigate Greece's debt crisis through the first adjustment programme. This scheme focused on restoring fiscal stability, ensuring the financial sector's stability, and fostering structural reforms (OJEU, C 83, 2010: 3; EC, 2010: 2). It required fiscal consolidation measures and structural conditions such as public administration reforms (EC, 2010: 12, 27, 28)

Figure 4.13: Implicit Interest Rates of sovereign loans before and after the PSI (2011-2017).

	2011	2012	2013	2014	2015	2016	2017
EU-27	3.8%	3.6%	3.2%	3.0%	2.7%	2.6%	2.5%
Eurozone	3.6%	3.5%	3.1%	2.9%	2.6%	2.5%	2.5%
Germany	3.2%	3.0%	2.6%	2.4%	2.1%	2.1%	2.0%
Belgium	3.7%	3.6%	3.2%	3.0%	2.7%	2.6%	2.5%
Ireland	4.1%	3.8%	3.6%	3.5%	3.3%	3.2%	3.3%
Greece	4.6%	2.7%	2.4%	2.2%	2.3%	2.2%	2.1%
Spain	4.1%	4.2%	3.9%	3.7%	3.2%	3.0%	2.8%
Italy	4.1%	4.4%	3.9%	3.6%	3.3%	3.1%	3.0%
Cyprus	4.0%	4.4%	3.7%	2.7%	3.0%	2.3%	2.3%
Portugal	4.4%	4.2%	3.9%	3.9%	3.8%	3.7%	3.5%

Adapted from: AMECO Database, (2021).

PM Papandreou later secured a second programme of €172 billion, accompanied by a debt restructuring plan (PSI) involving a 50% nominal haircut of Greek debt owed to private creditors (*Papandreou.gr*, Speech to the Ministerial Council, 3/11/2011). Despite facing domestic opposition (*Kathimerini*, 31/10/2011; 4/2/2013; 13/5/2014; 15/6/2014) and proposing a referendum, European leaders rejected the idea, considering it a vote on Greece's Eurozone membership (*NYT*, 1/11/2011; 3/11/2011). Papandreou's resignation led to the formation of a 'National Unity Government' that restructured Greece's debts in April 2012, resulting in the PSI reducing implicit interest rates, captured in **Figure 4.13**, above, and extending Greece's repayment period to 2042 (Eurogroup Statement, 2012).

The Private Sector Involvement (PSI) marked a turning point in Greece's debt crisis, altering creditor composition and debt management dynamics. Initially, Greek debt was primarily held by private creditors. The PSI led to a nominal reduction in Greek debt by €107 billion, transferring responsibility to official creditors (Zettelmeyer *et al*., 2013). This change impacted fiscal and economic policy decisions and negotiations with official institutions. However, the Bank of Greece (BoG) estimated the real gain at only €51.2 billion (BoG, 2014: 95-96).

The BoG estimated the actual gain at only €51.2 billion (BoG, 2014: 95-96). Zettelmeyer et al. (2013) noted that new bonds increased Greek government debt by €98.8 billion to public creditors. The PSI set the stage for Greece's second Troika-sponsored adjustment programme of €226.8 billion (Eurogroup Statement, 2012), addressing funding gaps and focusing on unimplemented structural reforms. The second programme reinforced the First Programme's conditionalities, targeting areas such as the Greek PA (EC, 2012: 32-33), justice and healthcare systems (EC, 2012: 36-37), and comprehensive market liberalisation (EC, 2011: 43-45). Moury *et al*. (2021: 44) argue that the second MoU continued the austerity doctrine and structural reforms of the First Programme but had a broader scope.

The EU established the European Financial Stability Fund (EFSF) as the primary financing instrument during the second programme (EC, 2012: 15).

The second programme outlined an ambitious privatisation plan, targeting €19 billion between 2012 and 2015 and €50 billion in the medium term (EC, 2012: 15-46). It included additional reforms to improve the business environment (EC, 2012: 8 and 15) and strengthen the regulatory framework (EC, 2012: 9). Measures introduced after the first review included the creation of GEMI, lowering capital requirements for limited liability companies, and introducing a new legal type for low-capital and flexible private companies (EC, 2012, b: 46-47 and 128).

The second programme utilised the OECD's toolkit to enhance competitiveness and growth (IMF, 2012, b: 45-46; 47-48), targeting areas such as retail (OECD, 2013, 89-93), tourism (OECD, 2013 123-131), construction material (OECD, 2013: 163), food processing (OECD, 2013: 195 -202), and broader regulatory reforms for the Greek PA and justice system (OECD, 2013: 43-53). The Task Force for Greece (TFGR) played a more significant role in the second programme (Spanou, 2021, b: Table 4, 133).

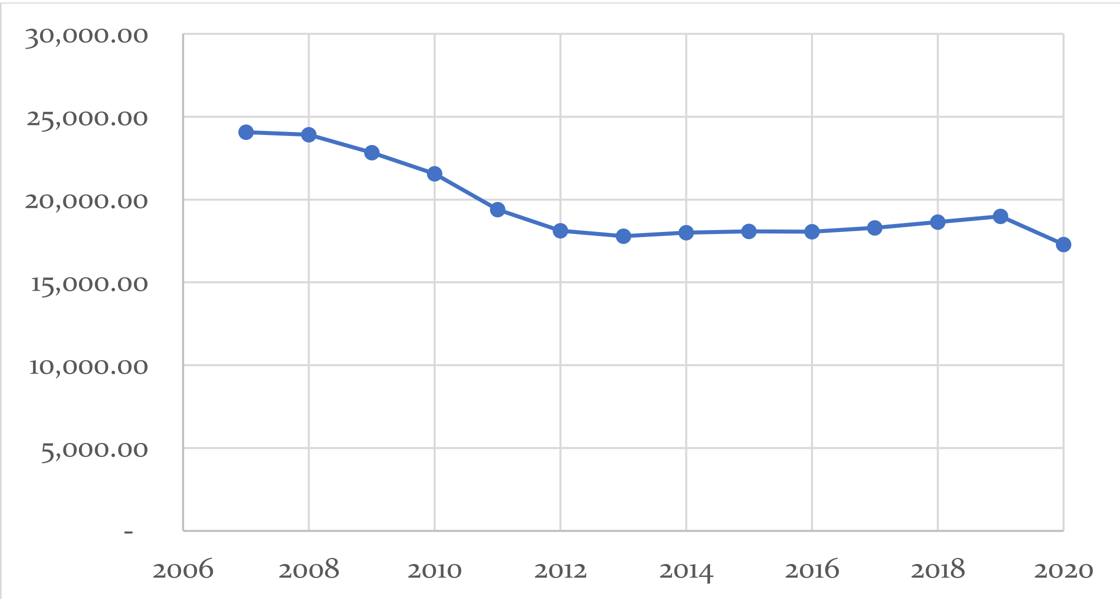
Though the Papademos government enjoyed greater credibility, it was an interim government, and creditors were reluctant to permit significant programme changes since the country was preparing for elections (Moury *et al.,* 2021: 45). The Greek Parliament's approval of the second programme led to the expulsion of over forty PASOK and ND members who rejected it (*in.gr*, 13/2/2012). PM Papademos announced early parliamentary elections for May 2012 (*To Vima*, 3/4/2012; 8/4/2012).

The uncertain outcome of the elections on 6 May 2012 led to a governability crisis in Greece. The failure of mainstream parties to form a coalition government and increased support for anti-MoU parties, such as SYRIZA and ANEL, widened Greece's credibility deficit with international creditors. The EU declared the subsequent elections a de facto referendum on Greece's Eurozone membership (*NYT.com*, 14/6/2012). However, the Eurozone's primary concern was Spain and Italy (*Guardian.com*, 28/5/2012; *NYT.com*, 28/5/2012).

In the second round of elections on June 17, ND won 29.7% of the vote but failed to secure a parliamentary majority, forming a coalition with PASOK and DIMAR, marking the first coalition government in Greece since 1989-1990. Simultaneously, SYRIZA emerged as the largest opposition, increasing its vote share to 26.9%. PM Antonis Samaras' commitment to honouring his predecessors' commitments was questioned due to his positioning as "the architect of the anti-memorandum" (*in.gr*, 7/6/2012) and rejecting further pension cuts during the Second Adjustment Programme negotiations (Papaconstantinou, 2016: 310). This aggravated Greece's credibility deficit and complicated its Eurozone prospects (PVT-COMM-1).

The international press reported preparations for reintroducing the drachma (Bloomberg, 16/2/2012; 5/3/2012; 24/5/2012). Fears of individual Eurozone exits (domino effect theory) or single currency dissolution arose due to uncertainty regarding EU action plans for Spain, Portugal, Italy, and Greece (*FT.com*, 17/5/2012). In June, ECB President Mario Draghi pledged to do "whatever it takes to preserve the [single currency]" (ECB, 26/7/2012), though investors and policymakers were initially surprised (Geithner, 2014: 477), and the substantive policy framework for assisting peripheral Eurozone Governments remained unclear (*eKathimerini.com*, 20/3/2013).

Figure 4.14: Constant GDP per capita for Greece in U.S. Dollars



Adapted from: Federal Reserve Bank of St. Louis (2022)

While the ND/PASOK coalition government began implementing reforms, additional tax measures like VAT and property tax undermined public support (*Naftemporiki.gr*, 18/11/2014). One controversial decision indirectly linked to the Second programme was the Greek Public Broadcasting Corporation's (ERT) closure in June 2013. Alongside the country's debt overhang, Greece's real GDP grew by 0.7% in 2014 after six years of consecutive economic decline. **Figure 4.14** demonstrates that Greek GDP per capita fell approximately 23% between 2008 and 2013.

SYRIZA leader Alexis Tsipras vowed in September 2014 to repeal the "self-destructive measures" of the Troika-sponsored programme (*Syriza.gr*, 17/9/2014; *Avgi.gr*, 20/9/2014). PM Samaras opposed the Memoranda of Understanding (MoUs) and sought to "evict the Troika" (Office of the PM, 23/5/2014). However, because it failed to conclude the programme's third review, the coalition government lost the creditors' trust (see **4.3.I** and **4.3.II**), leading investors to question Greece's financial stability (*FT*, 9/6/2014; *Reuters*, 16/12/2014). ECOFIN Commissioner Pierre Moscovici (AmCham, 28/11/2016) criticised the coalition for failing to address tax evasion, with the IMF expressing similar concerns (INT-2; Telloglou and Varvitsioti, 2015), and Samaras' call for early elections in 2015 raised fears of another crisis (Bloomberg, 2/10/2014; 26/1/2015).

This thesis posits that the Private Sector Involvement (PSI) and the second programme produced mixed results for three reasons. Firstly, they did not resolve Greek solvency issues. Debt held by private creditors decreased by €21 billion (10.8% of GDP), but the IMF acknowledged that Greek public debt exceeded projections, and the PSI adversely affected debt sustainability (IMF, 2013a: 16; 2013b: 17). Greece's public debt increased, and GDP declined (CADTM, 2015). The 120% debt-to-GDP target was revised in 2015, adopting a gross financing need (GFN) not exceeding 15% of GDP annually (Pagoulatos, 2018: 9-10).

Secondly, the PSI and the second programme failed to reduce Greece's external financial dependence (see **1.3**). The debt-to-GDP ratio was expected to reach 170% (IMF, 2013c: 16), which was unsustainable (see **1.3.II**). Although the PSI aimed to restore trust (ECB President Mario Draghi, *FT interview transcript*, 18/11/2011), it harmed Greek pension funds and the banking sector (see **4.3.III**). Fiscal consolidation and deflationary pressures intensified the recession. Between 2011 and 2012, Greek GDP contracted by 13.5% (Eurostat, 2021), more than the 6.6% initially projected.

Lastly, the PSI led to a significant restructuring of the Greek banking system, with smaller banks merging into four larger banks. Greek banks needed recapitalisation in early 2013 due to PSI-generated losses. Despite a favourable climate in 2013, with the privatisation of the public betting company (OPAP), the PSI and the second MoU failed to stabilise Greece's fiscal situation, exacerbating the domestic credit crunch and budget deficit. Revenues from privatisations and taxes were disappointing, with tax revenues suffering from tax evasion and the 'double dip recession' shown in **Figure 4.15**.

Figure 4.15: The Greek crisis and key economic indicators (2008-20018)

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Indicator											
Government Debt-to-GDP ratio	117.5%	135.4%	130.2%	**113.4%**	**167.9%**	182.4%	183.7%	184.9%	189.4%	192.7%	199.1%
General Gross Government debt	109.4%	126.7%	147.5%	175.2%	161.9%	178.4%	180.2%	177.0%	180.8%	179.2%	186.2%
Government Deficit-to-GDP ratio	-10.2%	-15.1%	-10.5%	**-9.0%**	**-13.2%**	-3.6%	-5.7%	0.5%	0.7%	1.0%	1.5%
Total Government Expenditure (billion €)	50.8	54.1	53	55.1	56.6	62.7	50.7	53.9	49.7	48.4	48.4
Real GDP per capita in €	22.370	21.350	20.150	18.190	16.940	16.600	16.820	16.870	16.850	17.100	17.400
Imports of goods & services in GDP terms	36.0%	28.8%	29.4%	31.3%	33.3%	32.7%	34.0%	33.2%	32.8%	41.1%	41.7%
Exports of goods & services in GDP terms	23.4%	19.0%	21.8%	25.5%	28.7%	30.3%	32.5%	32.2%	31.3%	35.0%	39.0%
Total Unemployment rate	7.8%	9.6%	12.7%	17.9%	24.5%	27.5%	26.5%	24.9%	23.6%	21.5%	19.3%
People at risk of poverty/social exclusion	n/a	-39	-15	357	749	857	838	782	743	655	302
Pension spending relative-to-GDP	12.5%	13.5%	14.1%	15.8%	17.0%	15.9%	16.4%	16.7%	16.6%	15.4%	n/a

Adapted from: Eurostat (2021); OECD (2021).

The following sub-section engages with the period between 2015 and 2019, characterised by SYRIZA's rise to power, the six-month-long impasse in its negotiations with the foreign creditors, which led to the referendum on the externally imposed conditions, combined with the PM Tsipras' agreement on a Third Adjustment Programme.

4.2.III The SYRIZA Years (2015-2019)

The previous sub-section analysed Greece's economic and political journey from 2010 to 2014, marked by two Troika-imposed adjustment programmes and the significant debt restructuring effort known as the Private Sector Involvement (PSI). However, these measures could not resolve Greece's persistent fiscal issues. The period witnessed a profound credibility crisis, exacerbated by an increasingly polarised political environment and strong opposition to the Memoranda of Understanding (MoUs). This situation created a self-reinforcing cycle of political and economic crises. The underlying themes of conditionality and external dependence played pivotal roles throughout this period.

This sub-section continues this narrative by examining the rise of SYRIZA to power and the formation of the SYRIZA-ANEL coalition. It will delve into the period when Greek credibility hit rock bottom and speculation of a 'Grexit' resurfaced, fuelled by the government's erratic and unyielding approach to negotiations.

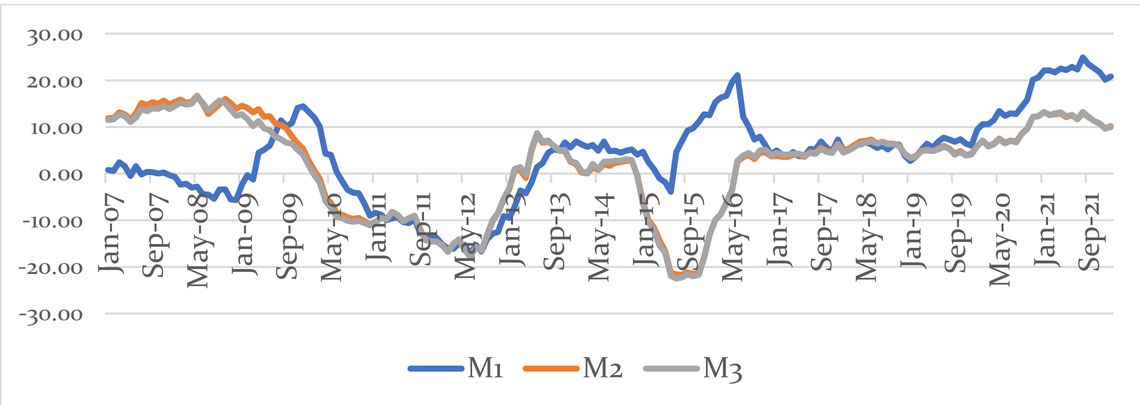
The emergence of SYRIZA's coalition agreement with the far-right *Independent Greeks* (ANEL) in January 2015 resurfaced the spectre of *Grexit,* with PM Tsipras arguing that a unilateral Greek default would significantly affect the Eurozone (*Corriere Della Sera*, 7/1/2015). The reliance of Greece's banking sector on the ECB's ELA increased as cash withdrawals hit €8 billion, undermining national credibility and trust in the Troika (*FT*, 28/5/2015; 13/6/2015; 19/6/2015; 27/6/2015; *WSJ.com*, 28/6/2015).

The ECB's late-2014 bond purchasing programme (QE) enabled the Eurozone to manage the 'Greek problem' without contagion risk (ECB Press Conference, 2015). The Troika and EU emphasised that the measures the previous government committed to had to continue, regardless of the outcome of any elections (Varoufakis, 2017: 237), with IMF Managing Director, Christine Lagarde, advocating for restoring dialogue with "adults in the room" (ECB press conference, 18/6/2015) and Troika Representatives (INT-2) underlined the importance of executing adjustment programmes, despite challenges faced by recipient countries (PVT-COMM-1; Eurogroup President, 2015; INT-5; INT-6; INT-8).

Greece's inability to access €7.2 billion from the Second Adjustment Programme led to soaring sovereign bond yields by 26.2%; (*FT*, 14/4/2015). PM Tsipras announced a plebiscite on the adjustment programme's conditions, deeming the creditors' proposals as a "humiliating blackmail ultimatum" (Tsipras, 3/7/2015; Naftemporiki, 4/7/2015). For Greece's international lenders, a 'no' victory in the referendum would signal Greece's potential Eurozone exit (*Concilium.Europa.eu*, 27/6/2015; 5/7/2015; *Euractiv.com*, 5/7/2015; PVT-COMM-4; PVT-COMM-5; PVT-COMM-6).

In 2015, Greece faced a banking and capital flight crisis, captured in **Figure 4.16** below, triggered by the ECB halting additional emergency lending assistance, leading to capital controls and cash withdrawal limits (ECB, 2015a; b; *To Vima*, 28/6/2015; FEK, A′ 161, 2015). Greece's credibility suffered from its inability to repay a €1.5 billion debt to the IMF on June 30 (IMF Press Release 15/310, 2015; Brookings, 2015; INT-2; INT-6; INT-7; *The Peninsula*, 30/5/2015).

Figure 4.16: Greek Monetary Aggregates (M1, M2, M3).



Adapted from BoG (numerous reports); ECB (numerous reports); *CEICDATA.com* (2021).

Although the 'yes' campaign in the referendum framed the vote as preventing Greece's Eurozone exit rather than supporting austerity (Kanellopoulos, 2015), 61.3% of the public voted 'no' in the June 5, 2015, referendum (*ekloges-prev.singularlogic.eu*, 2015), straining relations with the Troika due to disagreements on reforms and fiscal measures (*FT.com*, 3/7/2015). In response, the Troika urged the government to present more "realistic" proposals, including €50 billion of national assets as privatisation collateral (Concilium.europa.eu, 2015c).

Greece's isolation within the EU and Eurozone intensified, with 18 of 19 member states supporting Greece's exit during a July 11 Eurogroup meeting (Bloomberg, 13/7/2015). The German Finance Minister proposed a five-year Eurozone "time-out" and a Luxembourg-based trust fund to sell €50 billion worth of assets while receiving humanitarian assistance from the EU (Comments on the latest Greek Proposals, 2015).

During PM Tsipras' first six months, the government reversed some austerity measures (*Reuters.com*, 20/9/2015 Featherstone and Papadimitriou, 2017: 246; Moury *et al.,* 2021: 56). Even though PM Tsipras had pledged to "annul all the memoranda with a single law" (*Vouli Channel*, 11/11/2012), on August 11, PM Tsipras agreed to an €86 billion financial package, becoming the third adjustment programme (EU Council, SN 4070/15; *WSJ.com*, 11/8/2015). This compromise led to an internal split within SYRIZA, resulting in PM Tsipras calling a snap election in September 2015, which led to a split within SYRIZA (*Kathimerini*, 7/7/2015; *Protothema.gr*, 6/7/2015; *FT*, 21/08/2015; *NYT*, 24/08/2015).

In an attempt to resolve the crisis, Tsipras introduced a "parallel programme" designed to counterbalance the creditors' demands with welfare initiatives and provisions for public investment, all of which were designed to mitigate the impact of austerity (*Avgi.*gr, 6/9/2015). Greece's creditors criticised the programme's projected expenditure increase, arguing it would strain Greece's limited resources and hinder its ability to meet the fiscal targets set by the creditors (*BBC News*, 5/9/2015).

Despite this, Tsipras won the election and formed a coalition government, committing to implementing the Third Programme (*BBC News*, 21/09/2015).

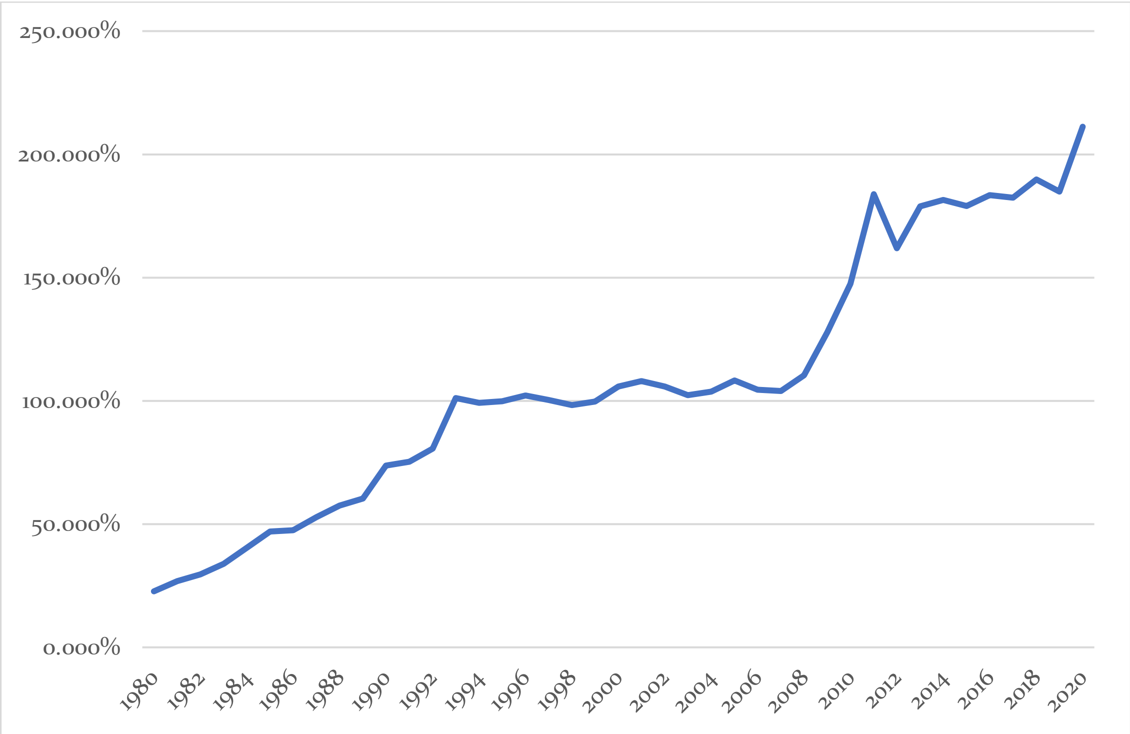
The Third Adjustment Programme sought to address unresolved issues and provide a more gradual fiscal adjustment path. Like previous programmes, the third MoU included qualitative and quantitative conditions and focused on significant reforms (EC, 2015). The Third Programme offered a gentler fiscal adjustment trajectory given Greece's economic disruption and "highly unsustainable" public debt (IMF, 2015b). The Third MoU mandated politically sensitive reforms, such as annual performance assessments for public-sector officials and merit-based appointments (EC, 2015: 19-21). The MoU set qualitative and quantitative targets regarding privatisations, including establishing an independent privatisation fund (EC, 2015: 47) and generating €50 billion through asset sales (EC, 2015: 43, 47). The Greek government's limited influence in shaping the programme was due to strained creditor relations and the need for financial assistance to avoid a potential Eurozone exit. The third adjustment programme rebranded the Troika to the Quartet and included the European Stability Mechanism (ESM), with the IMF acting as a technical advisor. The programme targeted the Greek public-sector, goods, and labour markets and set explicit budgetary surplus targets (Eurogroup Statement, 14/8/2015). After the September 25, 2015, elections, the third programme gained unprecedented parliamentary consensus, with 222 out of 300 MPs voting in favour (*Kathimerini*.gr, 14/8/2015; Praktika Voulis, 14/08/2015, PE, A, IST period).

The parliamentary consensus improved Greece's credibility among international partners. Jeroen Dijsselbloem, Valdis Dombrovskis, and Klaus Regling acknowledged the significance of parliamentary support in rebuilding trust and restoring confidence in the Greek economy (Eurogroup Press Conference, 14/8/2015; European Commission Press Conference, 14/8/2015; ESM, 2015).

Despite the agreement on the third programme, delays occurred in its implementation. The programme's first review took place in June 2016. Amidst the migrant and refugee crisis of 2016, Greece faced €600 million in short-term financial strains and sought concessions on the programme's conditionality (UNGA, 2015; Tsipras, Council of Europe, 2016;). The Tsipras government launched a new "parallel programme" focusing on a social agenda, public infrastructure investment, and economic development (*WSJ.com*, 12/4/2016). The Quartet urged the government to strictly adhere to the programme (IMF, Press Briefing, 2016), as the lack of progress in previous negotiations negatively impacted the economy and necessitated bank recapitalisation in October 2015.

Tensions persisted over privatisations and labour reforms (INT-2) (see **4.3.III**). Moreover, the May 25, 2017, terrorist attack against ex-Prime Minister Papademos highlighted ongoing political instability. Greece regained access to international markets in July, issuing a five-year bond (*Reuters*, 25/07/2017). The economy showed some improvement, with unemployment rates dropping and GDP growth projected at 2.1% for 2017 (IMF, 2017: 13). However, as of September 2021, Greece's public debt remained at 206.3% of GDP (World Bank, 2021).

Figure 4.17: General government gross debt for Greece, Percent of GDP, Annual, Not Seasonally Adjusted (1980-2020)



Adapted from: Federal Reserve Bank of St. Louis, 2022.

The following takeaways emerge. First, although Greece achieved "impressive" macroeconomic adjustment (OECD, 2020; 2021), the three successive adjustment programmes' conditionality straitjacket delivered mixed results. Eurogroup President Mario Centeno argued that Greece "regained the control it fought for" (Consilium.Europa.eu, 2018), but the adjustment programmes ultimately exacerbated the country's external dependence. **Figure 4.17** above illustrates that at the end of 2009, the Greek General Government Debt stood at approximately €301 billion (126.7% of GDP); however, when Greece completed the programme, the General Government Debt rose to €335 billion (186.2% relative to GDP) (Eurostat, 2021).

Second, although Greece turned a fiscal deficit of 15.4% in 2009 to a primary surplus of 0.9% in 2018, the externally prescribed conditionality prioritising expansionary fiscal contraction or austerity (see **1.3.III**) failed to catalyse an economic rebound. Contrary to expectations that spending cuts would enable private sector expansion, the IMF admitted miscalculations regarding the impact of slashing government spending on the economy – the so-called fiscal multiplier (Blanchard and Leigh, 2013: 9). The first adjustment programme (May 2010) initially anticipated Greece's economy to return to pre-crisis GDP levels within eight years. However, with every programme review, these projections proved inaccurate and were repeatedly amended. Between 2008 and 2016, Greek GDP contracted by over 25%, and real output was around 75% below 2007 levels.

Third, the three adjustment programmes failed to restore confidence in the Greek economy and improve its credibility. Although Commissioner Moscovici argued that "Greece will now be treated like any other Euro[zone] economy" (FT, 20/08/2018), the Greek economy remained the only Eurozone economy excluded from the ECB's bond purchasing programme, known as Quantitative Easing (QE). Lingering confidence problems in the Greek economy were evident in January 2019 (*Kathimerini*, 15/10/2019), when the Greek Government borrowed from international capital markets for the first time since 2018, securing €2.5 billion in a bond auction and recording a surplus of 3.6% (Eurogroup, 4/12/2018).

While Irish and Portuguese economies recovered to pre-crisis GDP levels in 2015 and 2019, the Commission (2018: 5) forecasts Greece to return to pre-crisis GDP levels by 2031 and the IMF by 2034 (INT-2; Thomsen, 2019). While the slow recovery, longstanding issues such as unemployment, excessive tax and regulatory burdens (i.e., labour and goods markets), and Greece's 'competitiveness problem' persist (see **4.3.III**). Although the three adjustment programmes' external limitations contributed to these unfavourable outcomes, significant endogenous roots also played a role.

The next sub-section concludes this section, summarising the insights offered in the preceding sub-sections.

4.2.IV Conclusion

4.2.I highlighted that the aftershocks of the 2008 US stock market crash and the ensuing *sudden stop* reached Greek shores with a delay. It stressed that the upwards statistical revisions exposed the Greek economy's unsustainable *triple deficits*, and *debt overhang*, which marked the metastasis of the crisis from the US to the Eurozone. The unfavourable international environment triggered a panic in financial markets about Greece's *credibility* as a borrower and its high dependence on foreign capital (see *original sin* in **1.2.II**). What at first sight appeared to be an *illiquidity crisis* morphed into *a balance-of-payments crisis* and, subsequently, degenerated into a *crisis of solvency*. Unlike the 1930s, when the international *sudden stop* prevented Greece from securing an international loan (see **3.2.II**), in the 2010s, Greece obtained three financial rescue programmes, all of which were vested with stringent and front-loaded *conditionality* (see **1.2.II**; **1.2.III**).

4.2.II critically engaged with the Greek PSI and the Second Adjustment Programme, highlighting that in addition to aggravating the country's *external dependence*, the deteriorating economic conditions combined with the programme's pro-cyclical and recessionary nature bore a painful toll on Greece's socioeconomic fabric. I suggested that the endemic and mutually reinforcing role between politics and economics –the 'political economy doom loop' –

metamorphosised into a 'crisis of confidence', which thwarted the implementation of reforms and aggravated Greece's *trust deficit* (see **4.3.I**; **4.3.IV**). Ultimately, the endemic weaknesses characterising Greek *credibility* resurrected aggressive speculations of a *Grexit* and accentuated fears about contagion in bond markets.

4.2.III covered the so-called 'Greek Crisis' final and most acute stage. The emergence of the SYRIZA/ANEL coalition culminated in an unprecedented rupture with Greece's creditors. The Greek economy's lingering *triple deficits*, the rapid surge in the Greek State's indebtedness, sluggish export performance, and longstanding competitiveness problems compounded the Greek State's financing gaps and *debt overhang*.

4.3 The enduring features of the Greek Political Economy ('chronic pathogens') & the Eurozone Crisis of the 2010s

Having gone through the period leading up to the 2008 global shock in **4.1** and the response devised to address the Eurozone Crisis in **4.2**, I now shift my attention to the relevance and applicability of this thesis' five horizontal themes, which are described as the path-dependent pathogens' (see **Chapter 2**).

This section investigates how the *path-dependent pathogens* exposed themselves during the immediate outbreak of the post-2008 shock. Although the Eurozone Crisis has been described as a *critical juncture* (Spanou, 2012; 2020; Roos, 2016; Katsikas, 2022) based on the premise that it led to a radical shift in the political landscape, and the foreign intervention marked a significant turning point for Greece's political and economic trajectory (Pagoulatos, 2018), this thesis argues that it may be too early to determine the long-term effects and consequences of the crisis. Making an original contribution to the existing literature, this thesis investigates the manifestations of the path-dependent pathogens as *intervening variables* throughout the post-2008 period, arguing that they shaped the country's response and obstructed the capacity of the Greek authorities to exercise *ownership* (see **1.2.IV**) and consensus in favour of the externally-prescribed *reform-cum-conditionality* agenda. This perspective underscores the limited extent to which the introspection yielded substantive reforms or shifts in policy orientation, raising concerns about the long-term prospects for addressing Greece's deep-seated challenges. Several factors can be attributed to the limited effectiveness of self-introspection in the aftermath of the crisis, such as entrenched political and economic interests, institutional inertia, and resistance to change. Moreover, the complex interplay between domestic and international actors and the persistence of external dependencies further constrained Greece's capacity for transformative self-reflection.

4.3.I Greece's Cultural Dualism, Adversarialism & Underdog Culture during the post-2008 Crisis

Greek politics has often been described as a struggle between the influences of European modernity and the preservation of Greek cultural heritage and traditions (Herzfield, 1987). This section engages with how the *adversarial* and zero-sum *culture* characterising Greek political apparatus and the legacies of the Greek *cultural dualism* (see **2.2.I**) manifested themselves against the backdrop of the post-2008 Eurozone crisis, emphasising how these ongoing tensions gave rise to a dualistic mentality, which can be seen in the contrasting perspectives on the MoUs. Its analysis investigates how the disagreement on the MoUs and their conditionalities transcended mere policy disagreements and became deeply ingrained in Greek society, shaping its political and cultural landscape. It argues that the polarising wedge external intervention generated in Greek politics and society, especially the international rescue programs and their *conditionalities*, compounded the Greek state's *credibility deficit* (see **1.2.III**). The argument presented here is that the post-2008 crisis exacerbated the existing divisions characterising Greek society and resituated cultural dualism. Therefore, the tensions and political instability that predominated the Greek-specific setting were not simply a reflection of political polarisation but a manifestation of deeper issues related to Greece's historical experience and its relationship with European modernity. I also sketch out some of the most significant idiosyncrasies of the Greek political system.

The 2010 Greek financial crisis triggered significant political adversarialism and polarisation, culminating in violence and social unrest (*NYT*, 2/2/2010: 1; *Kathimerini*, 6/5/2010). The turmoil was foreshadowed by the 2008 riots following a police shooting of a teenager (*The Guardian*, 11/12/2008; *Kathimerini*, 10/12/2008; 14/12/2008). Public discontent was rooted in perceptions of corruption, unaccountability, and abuse of power (Public Issue, 2008), with the political establishment being seen as complicit and unresponsive (Kalyvas, 2015: 180).

The financial crisis exposed the root causes of unrest, intertwining them with foreign intervention through the Troika's visits, inspections, and harsh conditions (Vasilopoulou *et al.,* 2014). Greek media amplified perceptions of humiliation, blaming international creditors for the crisis and the harsh conditions imposed on Greece (Poulakidakos, 2010; *Avgi,* 12/11/2011; *Avriani*, 12/11/2011; *Eleftherotypia*, 12/11/2011; *Ta Nea*, 12/11/2011). The Memorandum of Understanding (MoU) with Greece's lenders triggered a strong division in the domestic political landscape, exacerbating tensions (Sotiropoulos and Bourikos, 2014: 321-322), something which was reported in both Greek and international media (*Kathimerini*, 6/5/2010; The *Guardian*, 5/5/2010).

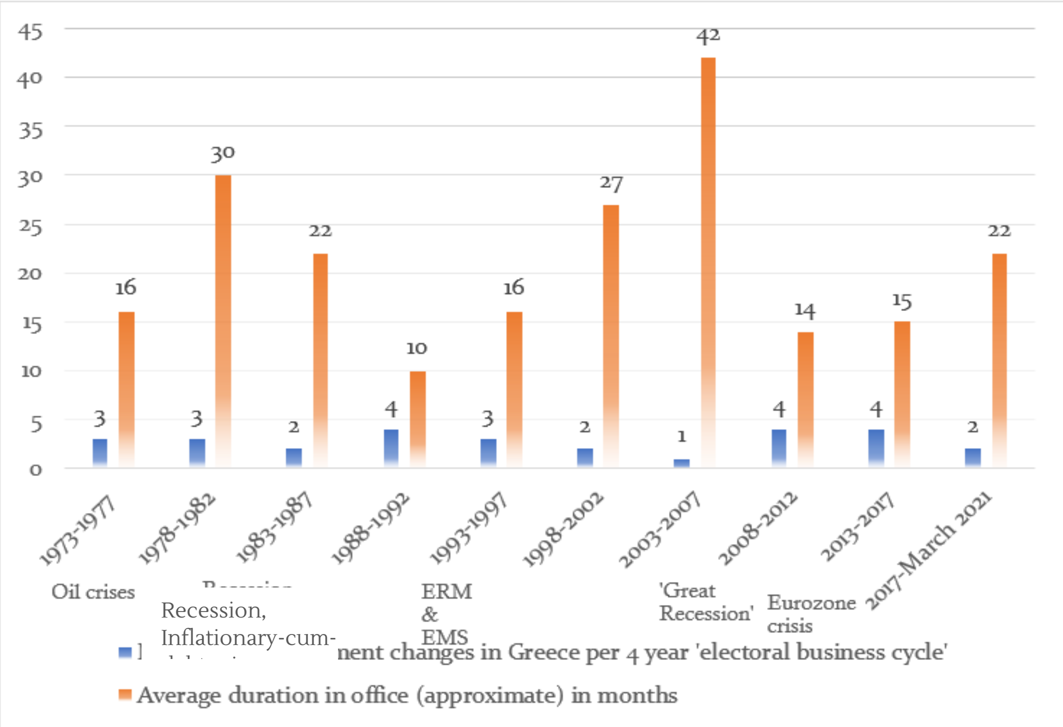
Amidst the 'winner takes all' mentality and cultural dualism in Greek politics (Diamandouros, 2013), polarisation, protests, and social unrest dominated the domestic setting (Kalyvas, 2015: 210; *Eleftherotypia*, 6/5/2010). Finance Minister George Papaconstantinou and centre-right ND leader Antonis Samaras expressed conflicting views on austerity measures (Praktika Voulis, RIE, 06/05/2010: 6734, 6764-6765). During the Eurozone Crisis's first stage, Samaras' uncompromising approach set a dangerous domestic precedent (PVT-COMM-6; PVT-COMM-1). ND's defection to the 'pro-MoU' camp in July 2012 came with an opportunistic blame shift and zero-sum strategy that later proved successful for SYRIZA/ANEL (see **4.2.III**).

Electoral outcomes during this period reflected growing polarisation in Greek society, with traditional political parties losing significant support due to their endorsement of austerity measures while anti-austerity parties gained ground. Proponents of the MoUs viewed them as essential for Greece's Eurozone integration and alignment with European standards, while opponents regarded them as encroachments on Greek sovereignty and vehicles for imposing severe austerity on citizens (*Guardian*, 2011; Kouki and Oikonomakis, 2016).

The post-2008 period saw a rise in cultural dualism, driven by political polarisation from diverse positions on the MoUs. The pro-MoU camp emphasised the need for austerity, fiscal discipline, structural reforms, and European integration, while the anti-MoU camp depicted austerity measures as an attack on Greek society's social fabric and advocated resistance against externally imposed policies. Electoral outcomes during this period further accentuated the political divide and polarisation, with traditional parties losing ground to anti-austerity parties such as SYRIZA and ANEL, as well as the far-right Golden Dawn. This demonstrated the crisis's impact on Greece's political and cultural landscape. Cultural dualism was also apparent in the varied backgrounds and motivations of social unrest and protest participants, as individuals from different walks of life rallied around respective camps, expressing their economic grievances and cultural affiliations.

The post-2008 shock radically restructured the Greek party-political apparatus, with electoral volatility captured in **Figure 4.18** (electionresources.org, 2022). The average duration in office dropped from approximately three years between 1998 and 2007 to roughly 15 months between 2008 and 2017. The financial crisis and subsequent polarisation significantly impacted the domestic political landscape, destabilising the party system and contributing to electoral shifts.

Figure 4.18: Exogenous Economic Shocks & Political Turbulence in Greece (1973-2021) *



* Government changes = alterations Cabinet in Government Cabinet (majority, technocratic, caretaker coalition, and multi-party coalitions).

Adapted from: Hellenic Secretariat General for Legal and Parliamentary Affairs, (2022).

Figure 4.19 below shows PASOK and ND votes dropping from 77.4% to 34.4% between 2009-2015 (electionresources.org, 2022). Concurrently, anti-systemic parties like SYRIZA, Golden Dawn (GD), and ANEL rose from 12.1% to 52.8% (*election resources.gr*, 2022) due to public disillusionment and underdog culture legitimation (see **2.2.I**). Anti-austerity parties blamed Greece's woes on the Troika and EU policies. SYRIZA's Tsipras accused Merkel of subjugating Greeks (The *Guardian*, 14/10/2012), ANEL's Kammenos claimed Germany aimed to seize Greek assets (*Kathimerini*, 10/09/2013), and GD alleged a plot to exploit resources (Deutsche Welle, 11/07/2013). A Eurobarometer (2013) survey found that 51% of Greeks believed secret organizations influenced politics.

Figure 4.19: Sum of Vote Shares of PASOK and ND in Parliamentary Elections.

Year	1985	1989	1990	1993	1996	2000	2004	2007	2009	2012	2015 Jan.	2015 Sept.
PASOK+ND	86.7%	86.9%	85.5%	86.2%	79.6%	86.5%	85.9%	79.9%	77.4%	42%	32.5%	34.4%

Adapted from: Hellenic Parliament, (2021).

The lens of the cultural dualism is applicable to examine the 2010s, as the debates on the MoU concomitated contradictory perspectives on Greek identity, values, modernisation, and the country's relationship with Europe and the 'West' more broadly. The European Social Survey (ESS) and Eurobarometer show that trust in national institutions fell between 2008-2016 (Armingeon and Guthmann, 2014). For example, trust in parliament declined from 57% (ESS Round 4, 2008) to 16% (ESS Round 7, 2014), and trust in the national government dropped from 42% (Eurobarometer, 2008) to 12% (Eurobarometer, 2016), indicating a widening public opinion divide.

Media outlets and social media platforms amplified cultural dualism by adopting clear stances on austerity (Poulakidos & Veneti, 2013; Papathanassopoulos *et al.*, 2013; Veneti & Poulakidakos, 2015). Dinas and Rori (2013) found that age, education, and regional identity divisions deepened, with younger, more educated voters supporting anti-austerity parties and older, less educated voters backing traditional parties. Regional identity played a role, as harder-hit areas showed stronger anti-austerity sentiments.

Social media reinforced cultural dualism during the Greek crisis, with platforms like Facebook and Twitter enabling supporters and opponents to express opinions, mobilize protests, and organize demonstrations (Gerbaudo, 2012; Oikonomakis & Roos, 2014). The hashtags "#MenoumeEvropi" and "#Oxi" during the 2015 bailout conditions referendum exemplified this divide.

Greece's response to the crisis differed from other Eurozone countries (i.e., Ireland, Portugal, Spain, and Cyprus) in three ways. Firstly, Greece saw strong political opposition to reform adjustment programmes. Thomas Wieser, Euro Working Group (EWG) president, noted that Greek politics and society perceived rescue packages as the cause of the crisis, unlike Ireland and Portugal (Economist Conference, 2021). By 2014, 75.25% of Greeks believed the crisis was premeditated (DIANEOSIS, 2014; Fotiadi, 2014), and in 2018, 71% thought the MoU aimed to subjugate Greeks (DIANEOSIS, 2018; Marantzidis and Sakkas, 2019; Gemenis, 2020).

Tsirbas (2016) observed increased conspiracy theories targeting the EU, the US, and international bankers. Figures like Angela Merkel were targeted due to austerity measures frustration (*To Pontiki*, 2012; *Crash Magazine*, 2013; *The Guardian*, 14/10/2012; *Kathimerini*, 10/09/2013; *Deutsche Welle*, 11/07/2013).

Secondly, Greece's crisis management differed, lacking self-examination, reform resistance, and failure to generate consensus (see **1.2.I**; **4.2.I**; **4.2.II**). In contrast, Ireland and Portugal showed introspection, addressed structural problems, and engaged in consensus-building.

Thirdly, Greece experienced significant political instability and polarisation (Katsikas and Patrikios, 2016: 643). In the period between 2010 and 2015, Greece experienced a significantly higher number of protests, over 30,000, compared to Spain (approximately 15,000), Portugal (around 5,000), and Italy (near 10,000), indicating a unique level of political instability and societal unrest. This disparity in protest activity underlines the distinct political trajectories of these countries despite shared economic challenges (Greek Ministry of Interior, various years; Centre for Sociological Research, Spain; Directorate-General for Internal Administration, Portugal; Italian National Institute of Statistics).

Political polarisation and cultural dualism resurgence in Greece were not solely internal. Rising Euroscepticism, Europhobia, and anti-Western sentiment indicated that Greek voters saw adjustment programmes as externally imposed punishment (*ThePressProject.gr*, 2014). Jacoby and Hopkin (2019: 1159) argued that the Troika's punitive discourse worsened Greece's polarisation. Perceptions of humiliation and the crisis's severe socioeconomic impact led to EU support dropping from 64% in 2004 to 17% in 2013 (Eurobarometer, 2014). In 2016, only 34% of Greek voters viewed EU membership positively (Eurobarometer, 2016).

Figure 4.20 displays cabinet changes in Eurozone crisis-ridden countries from 2008-2021. With ten cabinet changes, the Eurozone crisis (2008-2018) was post-authoritarian Greece's most divisive period. The SYRIZA/ANEL Government's rift with international lenders and European partners nearly led to Grexit (INT-2; INT-6; INT-8; PVT-COMM-1; PVT-COMM-3). It remains uncertain how deep the 2010s crisis wounds are and if they can be healed, as 75.25% of Greek voters still viewed the crisis as a foreign plot to subjugate the domestic population (*Kathimerini*, 18/6/2014; 2/10/2016; Dianeosis, 2018).

Figure 4.20: Number of Cabinet changes (March 2008-June 2021).

Number of Cabinet changes (March 2008-June 2021)	
Country	Number of Cabinet changes
Greece	10
Ireland	5
Italy	7
Spain	5
Portugal	6
Cyprus	2

Adapted from: Cypriot Ministry of Interior (2021); Irish Government (2021); Italian Ministry of Interior (2021); Hellenic Secretariat General for Legal and Parliamentary Affairs (2021); Portuguese Ministry of Interior (2021); Spanish Ministry of Interior, (2021); *Lexis-Nexis,* (2021).

The next sub-section turns its attention to clientelism and patronage politics.

4.3.II Clientelism in Crisis-Ridden Greece: turning point or Business as Usual?

The previous sections engaged with the relevance and applicability of cultural dualism and the legacies of political adversarialism in the post-2008 period. Among the crisis' numerous culprits, such as fiscal profligacy and loss of cost-competitiveness, the pervasive presence of patron-client networks, patronage and corruption have topped the list. Deputy PM Theodoros Pangalos reflected this sentiment in September 2010 during the Greek Parliament's debate on the factors responsible for the size of the country's significant external indebtedness, arguing: "We all had our snouts in the trough within the framework of relationships based on political clientelism, corruption, bribery and the debasement of the meaning of politics" (*Praktika Voulis*, 21/9/2010: xx). While acknowledging the pervasive nature of corruption and clientelism in Greece, Panagalos' statement also contributed to an erosion of public trust in the political system (*Skai News*, 22/9/2010; *Kathimerini*, 23/9/2010; *To Vima*, 24/9/2010).

Greece's creditors have attributed the shortcomings of the macroeconomic adjustment programmes to the pervasive nature of Greek clientelism. One source observes, "Clientelism has been at the heart of the Greek political system, shaping policymaking and undermining the effectiveness of reforms" (INT-2). Another commentator states, "The deeply entrenched clientelist networks in Greece have hindered the success of the adjustment programmes and contributed to their shortcomings" (PVT-COMM-6). Furthermore, "clientelism is at the root of many of Greece's problems, creating a culture of entitlement where people expect favours and benefits from the government and those in power" (PVT-COMM-10).

This analysis highlights the prevalence of patronage politics and perceptions of corruption in the post-2008 period. It demonstrates how the implementation of externally prescribed conditionality in Greece occurred within the path-dependent dimensions characterising the Greek political economy model. Despite pressure from abroad to eradicate the Greek political system's clientelist and rent-seeking bias, the party-political apparatus showed impressive resilience in supplying patronage and privileged access to its clientele, such as public-sector employees, pensioners, and unions, throughout the crisis.

The 2008 Stock Market Crash posed an existential challenge to Greece's highly distributional model (see **2.2.II**; **4.1.III**; **4.2.I**). The conditionalities stipulated in the externally prescribed adjustment programmes aimed to curtail the Greek public-sector's size and wages (IMF, 2010: 12, 50-51,74,75, 95, 98,103,142; EC, 2012: 36, 6-59,97-100, 131-132; ESM, 2015: 97; EC, 2016: 14; EC, 2016: 5, 9, 51; 2017: 8, 39,41,66,71,72,107; 2018: 10,24,61,64). Each incumbent Greek Government instituted forced retirement schemes and dismissals in the public-sector and paid lip service to overhaul the public administration and public security systems (*Kathimerini.gr*, 16/6/2013; 28/9/2014; 7/6/2015).

However, successive Greek Governments deliberately delayed implementing externally prescribed reforms, aiming to safeguard their clients and rent-seekers with longstanding state-sponsored privileges in the public-sector. Horst Reichenbach, head of the EU Task Force for Greece (ETFG), and the IMF's Troika representative, Bob Traa, emphasised that reforms were never implemented, and politicians failed to forge consensus because of the resistance of vested interests (Capital Link Forum, 2013; *To Vima*, 2016; *Kathimerini*, 20/8/2018).

Each Government conformed to the stringent conditionality agenda (FEKs A40, 2010; A212, 2010; A 138, 2011; A 152, 2011; A41, 2012; A167, 2013) in a way that allowed the governing party/ies to insulate powerful "vested interests", such as the public-sector's apparatus and over-regulated services (i.e., lorry drivers, pharmacies, etc.) (see **2.2.II**; **2.2.III**; **2.2.IV**; **4.3.IV**). The Greek political apparatus shifted the burdens of the adjustment effort onto the Greek private sector (see **4.3.III; 4.3.IV**). Between 2008 and 2013, the average private-sector wage dropped by 38.7%, while public-sector wages contracted by 25.9% (Eurofound, 2016).

Despite the second programme's conditionality stipulating that the Greek Government had to "reduce public employment by at least 150,000" (EC, 2012: 36) and the ND-PASOK coalition committing to executing 15,000 "mandatory dismissals" (*To Vima*, 13/4/2013; Samaras Speech, SEV, 13/5/2013), **Figure 4.21** below shows that between 2013 and 2018, the number of non-permanent public servants rose especially the "urgent appointments".

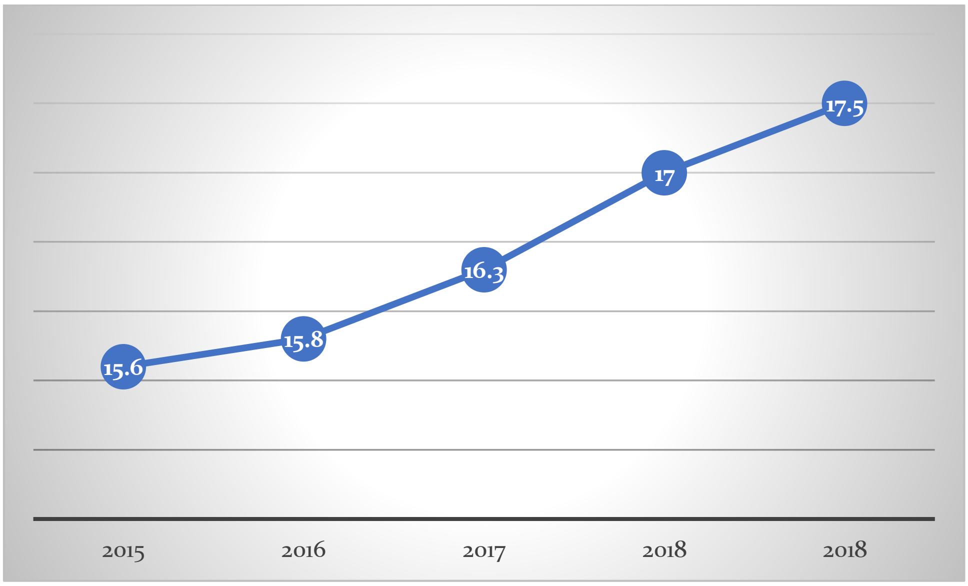
Figure 4.21: Evolution of Appointments in the Greek Public-sector (2009-2019).

<table>
<tr><th>Categories</th><th>December 2009</th><th>December 2012</th><th>December 2014</th><th>June 2019</th></tr>
<tr><td colspan="5">Novel Appointments of Permanent Staff in the Greek Public-sector</td></tr>
<tr><td>Ministries</td><td rowspan="6">692,907</td><td>513,136</td><td>473,485</td><td>460,960</td></tr>
<tr><td>Parliament</td><td>1,223</td><td>1,169</td><td>1,170</td></tr>
<tr><td>State Authorities</td><td>98</td><td>110</td><td>142</td></tr>
<tr><td>Independent Authorities</td><td>13,485</td><td>13,471</td><td>13,678</td></tr>
<tr><td>Decentralised Administrative Authorities</td><td>6,786</td><td>6,811</td><td>6,160</td></tr>
<tr><td>Local/Municipal Authorities (OTA)</td><td>94,386</td><td>81,810</td><td>82,831</td></tr>
<tr><td>The staff of Legal Entities of Private Law</td><td>62,691</td><td>43,605</td><td>31,900</td><td>34,536</td></tr>
<tr><td>Total</td><td>755,598</td><td>672,719</td><td>608,756</td><td>599,477</td></tr>
<tr><td colspan="5">Temporary Staff (Net number of additional appointments of Public Servants)</td></tr>
<tr><td>Contract Staff (Legal Entities of Public Law)</td><td>156,528</td><td>54,150</td><td>60,692</td><td>103,213</td></tr>
<tr><td>Contract Staff
(Legal Entities of Private Law)</td><td>24,972</td><td>16,395</td><td>11,800</td><td>19,650</td></tr>
<tr><td>Staff appointed on a non-temporary basis (non-permanent Staff)</td><td>1,844</td><td>1,855</td><td>1,888</td><td>2,054</td></tr>
<tr><td>Administrative Staff of Elected Officials</td><td>21,286</td><td>12,031</td><td>6,188</td><td>9,296</td></tr>
<tr><td>Members of Executive Boards/
Administrative Bodies</td><td>4,280</td><td>2,938</td><td>2,703</td><td>3,363</td></tr>
<tr><td>Other Urgent Appointments</td><td>5,631</td><td>4,941</td><td>12,207</td><td>20,160</td></tr>
<tr><td>Total</td><td>214,541</td><td>92,310</td><td>95,478</td><td>157,736</td></tr>
<tr><td>Grand Total</td><td>970,139</td><td>765,029</td><td>704,234</td><td>757,213</td></tr>
</table>

Adapted from: Greek Ministry of Administrative Reform (2020).

Although pressure from the MoU and international creditors curtailed permanent public servant hiring, governments circumvented official procedures through the Higher Council for the Selection of Personnel in the Public-sector (ASEP). Public-sector appointments surpassed departures during the ND-PASOK Government (2012-2015). Additionally, between December 2014 and December 2017, while the average private sector salary increased by approximately 3%, the average public salary rose by 16.7% (*Capital.gr*, 17/9/2019). This analysis underscores the deeply ingrained clientelism in Greece's political system and the government's efforts to protect its interests despite externally prescribed reforms.

Figure 4.22: Cost of Public-sector Payroll as a percentage (%) of GDP (2015-2019)



Adapted from: Greek Ministry of Administrative Reform (2020).

Although the third adjustment programme marked a more systematic effort by the country's international lenders to eradicate the prominence of clientelistic practices and harness *depoliticisation*, *rationalisation*, and *modernisation*, in Greece, voters adjusted themselves to the stringent domestic economic conditions by replacing one group of political patrons (i.e., mainly PASOK and ND) for another (i.e., SYRIZA and ANEL). The Ministry of Administrative Reform (2021) revealed that during SYRIZA's government, "emergency staff" appointments to the public-sector experienced a *net increase of* 62.258, and the total sum of additional appointments amounted to *104.407*.[2] **Figure 4.22** above shows that the payroll of the Greek public-sector exponentially increased throughout the 2015-2019 period.[3] The rise in personnel appointments in the Greek public-sector can be understood as a clientelistic practice involving the exchange of favours between political patrons and their clients. While the political patrons were the politicians or political parties, while the clients were the individuals who received public-sector jobs. It is essential to differentiate between necessary adjustments in the public-sector and the potential strategic use of public resources and power for political or personal gain.

A counterargument suggests that austerity measures in Greece were too harsh, necessitating public-sector adjustments. However, this does not negate the possibility of clientelism in personnel appointments. Differentiating between necessary adjustments and strategic use of public resources for political or personal gain is crucial. Though proving direct exchanges between patrons and clients is challenging, it can be assumed that personnel appointments were instruments to gain electoral support.

The SYRIZA-led government (2015-2019) reversed the downsizing effort, rehiring employees fired by their predecessors (*Capital.gr*, 27/4/2018; 17/9/2019), and reinstated around 600 cleaning staff from the Ministry of Finance and reopened the public broadcasting channel (ERT), rehiring around 1,500 former employees and committing to additional staff hires (*Ta Nea*, 1/4/2018). Additionally, the SYRIZA/ANEL government appointed many party cadres to various public organisations such as ERT, the Public Power Corporation (DEI), the Hellenic Republic Asset Development Fund (HRADF), as well as public hospitals and the courts (*in.gr*, 10/11/2018; *Kathimerini*, 7/8/2020). Evidence of the perceptions of clientelism, and the negative impact these decisions had on the country's

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2 While the programme stipulated that from June 30th, 2018, onwards, all public-sector vacancies would be filled via the National Registry of Public Executives Registry – enacted via Greek Law 4369 (FEK A46, 2016) – the Tsipras Government circumvented it.

3 The first MoU stipulated a 1: 5 attrition rule (i.e., five departures per new appointment); the second MoU stipulated 1: 10 "attrition rule" and the third MoU stipulated that "the gradual easing of the public-sector attrition rule from 1: 5 in 2016, to 1: 4 in 2017, and 1: 3 in 2018" (ESM, 2016: 4,8,35).

credibility abroad, can be found in news articles by Greek and international media sources.

For instance, an investigative article by Kaitanidis (*et al.,* 2018) scrutinised the various appointments the SYRIZA/ANEL government made until April 2018 (*Ta Nea*, 1/4/2018). Specifically, the article revealed these appointments' nepotistic and cronyistic nature, suggesting that many individuals appointed to public service positions were chosen due to their personal or family connections rather than their qualifications or professional experience (*Kathimerini*, 19/5/2016). Between 2015 and 2019, over 7,000 new permanent appointments were made, with 14,743 in 2019 alone (Ministry of Interior, apografi.yap.gov.gr, 2018; 2019). Working papers by ELIAMEP reveal the prevalence of patronage-led politics and clientelism post-2010 (Blavoukos and Sotiropoulos, 2014: 38; ELIAMEP, 2018). Greece's Corruption Perception Index (CPI) ranking remained low, and 93% of Greeks believed corruption was widespread in 2017 (EC, various years).

The Global Corruption Barometer (GCB) showed that 53% of Greeks in 2013 felt government efforts against corruption were ineffective (Transparency International, 2013). Greece's percentile rank for control of corruption in the Worldwide Governance Indicators (WGI) rose marginally from 47.97 in 2010 to 51.69 in 2018, remaining below the EU average (World Bank, various years). The EU Quality of Government (QoG) Index ranked Greece 26th out of 30 countries in 2017 (Charron *et al.,* 2014; Charron *et al.,* 2018).

Despite reforms, governments continued distributing patronage through public-sector appointments, contributions, and privileges to secure votes (Spanou, 2018b). In 2020 and 2021, the New Democracy government made fewer permanent appointments, but around 20,000 appointments were made in 2022, and SYRIZA pledged to appoint 20,000 teachers between 2023 and 2027, indicating a return to clientelistic practices (Alexis Tsipras, Speech in Kalamata, 31/3/2023).

The main argument is that, at least at the time of writing, foreign-induced conditionalities did not fully dismantle the Greek party-political apparatus' clientelist bias, and "politics as usual" persisted through the crisis of the 2010s.

Although demonstrating these appointments resulted from direct exchanges between patrons and clients is inherently difficult, the upward trends in public employment via standardised hiring procedures or horizontal transfers of hired public servants within public services arguably illustrate the enduring nature of clientelism and patronage-led politics in Greece in the aftermath of the crisis.

The following section turns its attention to the prevalence of Greece's étatist legacies, combined with the enduring presence of state intervention in the Greek economy in the 2010s.

4.3.III Greek Étatism & the "Political Economy of Reforms": a Janus-faced implementation of Conditionality

Although the Eurozone crisis in Spain, Ireland, and Portugal was attributed to excessive banking liberalisation, private indebtedness, and a widespread real-estate bubble (Baldwin and Giavazzi, 2015: 21; Royo, 2020: 119-122), explanations for the 'Greek crisis' have varied, focusing on Greece's "statist orientation" and factors such as excessive regulation (Lisi and Ramalhette, 2020: 175; Markantonatou, 2021), fiscal imbalances, public-sector unions, and the state's problematic role.

Poor fiscal management has been identified as a crucial factor causing and prolonging the Greek crisis, with excessive government spending and borrowing leading to a 15.1% budget deficit of GDP in 2009 (Manasse, 2010: 3; Reinhart and Rogoff, 2011: 90). While Greece's large public-sector, accounting for around 40% of GDP, perpetuated inefficient resource distribution (EC, 2010: 5), its ineffective tax-collection system hindered economic recovery, with tax receipts as a percentage-of-GDP remaining below the EU average since the 1980s (Artavanis *et al.,* 2016: 2). The IMF (2018: 26) highlights Greece's persistent failure to collect taxes efficiently as exacerbating fiscal imbalances.

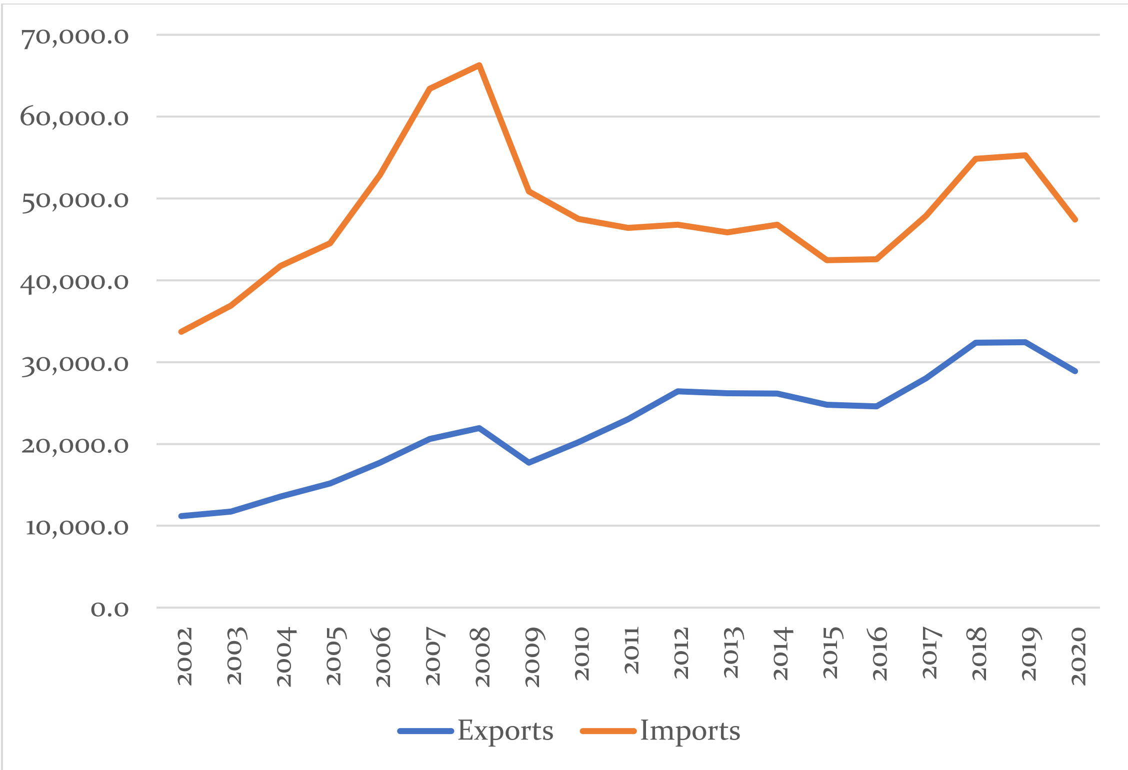
High corruption levels have obstructed necessary reforms, eroding state confidence and compromising economic policy credibility (Katsimi and Moutos, 2010: 385; Transparency International, 2010: 4; Featherstone, 2011: 203-204). Public-sector unions have played a critical role in resisting reforms and intensifying fiscal imbalances by marshalling resources and applying political pressure (Eurostat, 2011: 98; Featherstone, 2011: 202; ILO, 2011: 31; Lyberaki and Tsakalotos, 2011; Matsaganis, 2011: 31; Monastiriotis, 2013: 126; ELSTAT, 2014: 23). State interventionism and inefficiency further worsened the crisis, restricting private sector growth potential and deterring foreign investment (Mitsopoulos and Pelagidis, 2012: 87; Kazakos, 2018: 143).

This analysis investigates the enduring legacies of Greece's state-driven growth model in the post-2010 period, arguing that the resilience of the country's étatist legacies hampered the economy's recovery. Four key domains are examined: i) exports, competitiveness, and regulatory burdens; ii) the banking sector; iii) independent institutions; and iv) privatisation.

1. *Exports, Competitiveness & Regulatory Burdens*

The three adjustment programmes aimed to restore Greek credibility among investors and transition the economy to an investment and export-led growth model (EC, 2010: 9-10; 2012: 11–16; 2016: 2,25-30; INT-4). With currency devaluation not an option, wage compression facilitated internal devaluation. While this strategy reduced Greek labour costs, it negatively impacted the real economy and caused unemployment to triple between 2008 and 2013 (see **4.2.I**; **4.2.III**).

Figure 4.23: Exports vs Imports Greece's trade imbalance (2002-2020) (in millions €).



Adapted from: BoG, 2020.

Despite the rebound of Greek exports in the post-2018 period, étatist legacies persisted in Greek trade patterns. **Figure 4.23** above illustrates the gap between Greece's imports and exports. According to the BoG (2021), in 2020, exports constituted 34.0% of Greece's GDP), while imports accounted for 36.6%, both figures below the EU average (World Bank, 2022). Factors hindering Greek exports include small firms, limited access to finance, and low innovation levels (OECD, 2019: 27). Greece's Global Competitiveness Index (GCI) ranking has been declining since 2014 (WEF, 2017: 13, 130-131; WEF, 2019: xii, 246-249), with the 2020 GCI report indicating that excessive bureaucracy stifles competition and investments (WEF, 2020: 45–46,48,51, 73-76; PVT-COMM-9; PVT-COMM-10).

Étatism has also influenced import patterns, with high protectionism and regulatory barriers limiting foreign goods and services inflow, constraining competition, and efficiency (OECD, 2018: 83). Greece's economic freedom has consistently been categorised as "mostly unfree," lagging behind Eurozone and Balkan counterparts (Heritage Foundation, 2021). Greece's restrictive regulatory framework is evidenced by its 79th position out of 190 countries in the World Bank's 2021 Ease of Doing Business Index (WB, 2020; WEF, 2019: 236) and its above-average Product Market Regulation (PMR) score of 1.52 in 2018 (OECD, 2018: 47).

Étatist legacies are apparent in the Greek labour market, with public-sector employment comprising 21.7% of total employment in 2019, exceeding the EU average of 15.5% (Eurostat, 2021)—strict employment protection legislation and high minimum wages constrained labour market flexibility (OECD, 2018: 87-88). State monopolies continue to hinder progress in Greece, such as the constitutional monopoly on public universities, only shared by North Korea, which restricts private sector expansion and innovation in higher education (Huliaras and Sotiropoulos, 2016). In 2018, Greece's expenditure on education as a percentage of GDP was a mere 3.9%, below the EU average of 4.6% (WB, 2020). Other state monopolies, including those in the energy and transportation sectors, impede competition and market liberalisation, obstructing overall economic growth.

2. Banking

Established in July 2010, the Hellenic Financial Stability Fund (HFSF) aimed to rescue Greece's struggling banking sector through three consecutive recapitalisations (FEK, 119A, 2010; Hardouvelis *et al.,* 2018: 20). However, political elites obstructed the process, negatively affecting competitiveness and efficiency (Praktika Voulis, 2012: 4142-4143; *Bloomberg*, 16/4/2014; *Real.gr*, 11/4/2019).

The second recapitalisation's shortcomings and the 2015 elections devalued the HFSF's asset portfolio from approximately €22.6 billion in December 2013 to €11.6 billion in December 2014 (*hfsf.gr*, 2014). The Tsipras government's confrontation with the Troika reduced cash deposits by around €38 billion or 25% of total deposits (BoG, Stournaras, Keynote Address, 8/6/2016; *Kathimerini*, 13/2/2018). Capital controls stopped massive capital flight, but Greek banks' value dropped from €11 billion in December 2014 to €7.5 billion in June 2015 after the third recapitalisation (INT-8; Xafa, 2017: 33).

The third adjustment programme aimed to enhance the Greek banking sector's independence (OJEU, L 219/12, 19/8/2015: 5, 12-16). Due to insufficient progress, supplemental agreements demanded the protection of board members and senior management from political interference (EC, 2017: 18,35; 2018: 12, 15-19). The European Court of Auditors (ECA, 2017: 56) noted the credibility deficit in the Greek banking sector, stating that ownership changes almost resulted in full nationalisation in 2013, harming its reputation.

Post the third recapitalisation, foreign ownership of Greek banks increased, referred to as De-Hellenisation (Haliassos *et al.,* 2017: 266-270; Kolliopoulos, 2021: 5, 9, 11, 28), prompting debates on the state-dependent character of the Greek banking system (Louri and Migiakis, 2019; Papalexatou, 2021). However, the Greek state remains the largest shareholder, indicating its enduring role in the economy.

Despite De-Hellenisation, the state remains the largest shareholder in the banking system. The HFSF became the largest shareholder in four major Greek banks: National Bank of Greece (NBG), Piraeus Bank, Eurobank, and Alpha Bank. By 2017's end, the HFSF held stakes in these banks (BoG, 2017: 87), which remained significant as of 2020 (HFSF, 2020: 4). The Greek state's high presence in the banking sector impacts competitiveness, efficiency, and performance.

Factors contributing to the state's continued influence in the banking system include reluctance to sell shares at low prices, political pressure for state control, and lack of foreign investor interest (Pantelidis and Katselidis, 2018: 74). Staikouras *et al.* (2019: 343) suggest state-owned banks in Greece tend to have lower profitability, higher non-performing loans, and less efficient management compared to private counterparts.

The Greek state's role in the banking sector extends beyond share ownership. The HFSF's involvement in the recapitalisation process also granted the state significant influence over the banks' management and decision-making processes. According to Megginson (2018: 249), the HFSF played a critical role in the selection and appointment of top management officials in the banks it recapitalised.

The state's substantial ownership of these banks and influence over management and decision-making provides evidence of étatist legacies and the state's continued involvement in the Greek economy. To foster a more robust and competitive financial system, addressing these étatist legacies and reducing the state's influence in the banking sector is crucial, allowing for increased private sector involvement and improved efficiency in the long run.

3. Privatisations

Privatisation gained significant importance in the Greek adjustment programmes. While the first MoU led to the establishment of the Hellenic Republic Asset Development Fund (HRADF or TAIPED) to privatise numerous state-owned assets and enterprises (IMF, 2010: 8,11,13,27,30,38), the process faced multiple obstacles, resulting in "very disappointing" outcomes (IMF, 2012: 15-16,24, 44; 2013: 17, 18).

Only three privatisations were completed under the Papandreou Government (2009-2011). The Second Adjustment Programme aimed to raise billions in revenue, but by 2015, only about €3.5 billion was achieved (EC, 2016: 7). Tsipras' government later completed 33 privatisations, generating €5.3 billion between 2015 and 2019 (HRADF, 2019). However, bureaucratic and political barriers and social opposition due to job loss concerns hindered further privatisation efforts (Lyberaki *et al.,* 2017: 14).

Glyniadakis (2018: 63) suggests this marked a turning point in the Greek government's approach to privatisation. Bureaucratic and political impediments hindered progress, and privatisation revenues fell short of the revised target (EC, 2018: 7; OECD, 2018: 10). Social opposition and protests, driven by concerns over job losses and reductions in workers' rights, further hindered privatisation efforts (Lyberaki *et al.,* 2017: 14).

The privatisation of natural gas grid operator DESFA faced regulatory and political hurdles, with the initial deal falling through in 2016 and a different consortium acquiring the stake in 2018 (*Reuters*, 2/11/2016; 20/12/2018). This highlights the persistent influence of étatism in Greece, even during a period marked by externally induced privatisations.

The Mitsotakis government (2019-2023) completed several major privatisations, including selling a 35.48% stake in Hellenic Petroleum 2019, extending the concession agreement for the Athens International Airport by 20 years and selling a 67% stake in the Hellenic Gas Transmission System Operator (DESFA). However, enduring problems in privatisation persist, with the state maintaining a presence in strategic economic sectors such as energy and transportation, and reluctance to cede control to the private sector is emblematic of the étatist mindset that persists in Greece (*Kathimerini*, 17/10/2016; 19/12/2020; 24/5/2021; *freesunday*.gr 14/5/2019*capital.gr*, 16/10/2020; *in.gr*, 19/8/2021 ICIS, 2021;).

Between 2011 and 2022, Greece raised a total of €7.6 billion from privatisations, falling well short of the €50 billion target (EC, 2012: 13; 2014: 70; IMF, 2019: 42; Reuters, 14/2/2022). The hostile political environment deterred potential investors and limited the positive impact on the Greek economy. The IMF (2020: 11) emphasised the effect of étatist legacies on Greece's economic performance, stating that "the state's large footprint in the economy and limited progress in structural reforms continue to hold back private investment and productivity growth." Slow privatisation progress, political opposition, and bureaucratic obstacles (OECD, 2020: 47) demonstrate the enduring influence of étatism in Greece. The uncertain political and economic climate and high levels of public debt (206.3% of GDP in 2020) discouraged foreign investors from participating in privatisation projects (Eurostat, 2019).

Deutsche Telekom's increased ownership of the Hellenic Telecommunications Organisation (OTE) to 40%, with the government retaining a 12.5% stake (OECD, 2020: 49), exemplifies the persistent role of étatism in Greece. State involvement in infrastructure projects, such as developing and operating ports and airports, further demonstrates this. The privatisation of the Piraeus Port Authority incorporated provisions for ongoing state involvement through a regulatory authority supervising port operations (OECD, 2020: 50). Additionally, the Greek state retained minority shares in privatised firms like the Public Power Corporation (DEI), where the government kept a 34% stake following partial privatisation (OECD, 2020: 48; *Ethnos.gr*, 11/11/2021), and DEI maintained a share of 63.3% in the Greek electricity production and distribution market (IEA, 2020: 26; *energypress.gr*, 26/1/2023). These examples illustrate the enduring role of étatism in Greece, even as the country undertakes privatisation efforts. Despite some progress, the challenges and reluctance to fully embrace privatisation reflect the persistent influence of étatism on Greece's economy and political environment.

4. *Autonomy of Independent Institutions, Media Freedom, and Surveillance of Citizens*

Throughout the 2010s, numerous instances displayed hostility towards independent institutions, reflecting a desire to exert control and maintain influence. The Samaras government (2012-2015) dismissed Haris Theoharis, the General Secretary of Public Revenue when he sought to enhance the agency's independence (*Kathimerini*, 12/6/2014). Similarly, the SYRIZA/ANEL coalition attempted to undermine the institutional autonomy of the BoG and ELSTAT, challenging the established orthodoxy since 1928 (see **3.1.III**).

The Tsipras administration perceived the BoG as too closely aligned with international creditors, accusing it of endorsing austerity measures (Bartolini *et al.*, 2017). Tsipras criticised the BoG's Governor, stating that "the governor should not systematically adopt the stance of some political forces, who engage in fearmongering" (Erlanger and Kitsantonis, 16/6/2015). This attitude reflects étatist desires to maintain state control over economic decision-making.

The Tsipras administration also cast doubt on ELSTAT's autonomy, alleging that the former ELSTAT president Andreas Georgiou overstated the 2009 budget deficit data to justify severe austerity measures (Matsaganis, 2017). Georgiou defended the integrity and independence of official statistics (Georgiou, 2/8/2017). The attacks on ELSTAT signify étatism. International bodies such as Eurostat, the ECB, and the IMF endorsed ELSTAT's revised deficit figures under Georgiou's supervision.

Another example of the Greek government's attempt to control independent institutions involves the state's influence over TV license distribution. In 2016, the government established a controversial auction system, limiting the number to only four nationwide broadcasting permits (AFP, 2/9/2016). The state's high capital requirements and strict regulations raised concerns about media freedom and transparency (*Kathimerini*, 8/9/2016), leading to a "virtual monopoly" and a decline in Greece's Press Freedom Index ranking to 70th in 2021 (Reporters Without Borders, 2021). The poor ranking includes government interference, media ownership concentration, and violence against journalists.

More recently, during the Mitsotakis government, concerns arose about the state's surveillance practices, particularly with the acquisition of the "Predator" system, reportedly used for mass surveillance of Greek citizens (Hatzis, 14/01/2021). Additionally, the reported monitoring of PASOK leader Nikos Androulakis (while an MEP) and other state officials exemplify the enduring legacies of étatism in Greece, eroding institutional independence, civil liberties, and privacy rights (*Kathimerini*, 15/09/2021).

The following section turns its attention to public administration (PA).

4.3.IV The Greek Public Administrative System in the 2010s and the Limitations of externally-induced Adjustment

The Greek public administrative (PA) apparatus exhibits numerous Southern European features, yet the political economy scholarship highlights its "eccentric" elements when exploring the root causes of the Greek Crisis (Portes *et al.,* 2011; Galanos *et al.,* 2017: 301-303). Three aspects elucidate this connection: firstly, the Greek PA's weak fiscal management and control have been linked to the significant accumulation of debt. Secondly, the absence of transparency and accountability within the Greek PA eroded trust in the government, domestically and internationally. Thirdly, multiple systemic weaknesses within the Greek PA hindered the implementation of necessary reforms.

Scholars argue that Greece's failure to comply with EU directives in the public administration domain indicated these underlying issues (Featherstone and Papadimitriou, 2008: 169). Spanou (2011: 320) contends that the inefficient public administration system exacerbated Greece's structural problems, making fiscal consolidation and implementing economic and social reforms difficult. Before the crisis in 2010, international organisations, including the OECD (2009: 27), emphasised that the Greek PA faced challenges such as fragmentation, complex procedures, lack of coordination, and limited accountability. The OECD also noted an ageing workforce in the Greek central administration compared to OECD standards, with 38% of public servants aged 50 years and above in 2009, a significant increase from 23% in 2000, and nearly 60% of these employees having a seniority of over 20 years in the administration (OECD, 2011: 60; EC, 2011).

During the 2010s, media scrutiny of the Greek PA intensified, criticising its inefficiencies, corruption, and significant impact on the country's economic difficulties (*The Economist*, 10/06/2010; *The Guardian*, 22/02/2011). Corruption, clientelism, lack of transparency, and accountability were cited as factors leading to public trust decline and undermining the system's effectiveness (WSJ, 09/02/2010; *FT*, 16/10/2011; *NYT*, 06/11/2010; *WPost*, 04/12/2011).

This sub-section critically examines the PA system's enduring structural and institutional rigidities in the 2010s. The analysis reveals that the Greek PA's intrinsic flaws and structural issues significantly shaped the nation's response to the post-2008 crisis, influencing political and institutional processes. For example, the lack of a reliable public-sector employment registry complicated the evaluation of the public workforce's actual size and identification of downsizing areas (OECD, 2011: 23), resulting in public-sector employment reduction achieved mainly through attrition and hiring freezes rather than targeted, merit-based dismissals (Mitsopoulos and Pelagidis, 2011: 103).

First, the Greek PA was characterised by a highly fragmented structure before the crisis, marked by bureaucratic inadequacies, poor human resource management, and an absence of transparency and accountability (OECD, 2011: 35-37). These pre-existing deficiencies became more evident as the crisis progressed, hindering the nation's ability to execute and supervise essential fiscal and structural reforms required by international bailout packages, such as the lack of a centralised human resource registry complicating streamlining the civil service and reducing public expenditure (Spanou, 2011: 1068-1070).

Second, deeply ingrained patronage networks and vested interests within the Greek public administration system exacerbated the issues during the crisis, obstructing the efficient implementation of crucial reforms (Featherstone and Papadimitriou, 2008: 29-32). This situation led to resistance against the necessary changes that could have alleviated the country's fiscal distress and improved its overall economic performance (Featherstone and Papadimitriou, 2008: 29-32). The persistence of these networks and interests underscored the challenges faced by the Greek government in implementing meaningful structural and institutional reforms, further contributing to the deepening of the crisis.

Third, the Greek PA was characterised by a highly fragmented structure before the crisis, marked by bureaucratic inadequacies, poor human resource management, and an absence of transparency and accountability (OECD, 2011: 35-37). Thirdly, these pre-existing deficiencies became more evident as the crisis progressed, hindering the nation's ability to execute and supervise essential fiscal and structural reforms required by international bailout packages. For instance, the lack of a centralised human resource registry complicated streamlining the civil service and reducing public expenditure (Spanou, 2011: 1068-1070).

Fourth, deeply ingrained patronage networks and vested interests within the Greek public administration system exacerbated the issues during the crisis, obstructing the efficient implementation of crucial reforms (Featherstone and Papadimitriou, 2008: 29-32). This situation led to a vicious cycle where the public administration's inability to deliver necessary reforms contributed to declining public trust in the political system, further weakening the government's capacity for change (Kalyvas, 2015: 101-103).

Fifth, in response to these challenges, the international community, led by the European Union, IMF, and OECD, emphasised administrative reform as a central element of the Greek bailout programmes. This aimed to address the Greek PA system's structural weaknesses, seen as key factors in the crisis and potential recovery impediments (Pisani-Ferry *et al.,* 2013: 74-76). Despite implementing crucial reforms and drastic cuts, the externally-prescribed bureaucratic-cum-administrative reform agenda and technical assistance fell short in tackling the Greek PA system's underlying weaknesses, leading only to a façade of rationalisation and modernisation.

At the onset of the crisis, the Greek public administration (PA) system's inadequacies were exposed, with the lack of a centralised human resource registry and reliable data on public administration personnel (PM Papandreou's Speech, Federation of Hellenic Information Technology and Communication, 3/5/2010). The first adjustment programme (May 2010–March 2012) aimed to "reorganize, simplify and reallocate" the Greek PA (EC, 2010: 18,26,48; IMF, 2011: 11–16,29). However, it faced shortcomings such as a lack of comprehensive strategy, focus on fiscal consolidation, and failure to address patronage and clientelism (Featherstone, 2011: 207; Alvarez *et al.,* 2014: 15, 21).

The European Court of Auditors (ECA) criticised the programme's unrealistic timeframe and lack of strategic orientation (ECA, 2015: 15, 20, 36, 49; ECA, 2017: 48). The second programme (March 2012–June 2015) aimed to create a more efficient, merit-based public-sector (EC, 2012: 19). However, it faced challenges due to the continued emphasis on fiscal targets rather than qualitative targets and structural reforms (Ladi, 2014; Spanou, 2021c: 87).

"Reform" often refers to abolishing or merging organisations, services, or employee sectors, outsourcing to the private sector, or privatisation. The then Minister of Administrative Reform and E-Governance, Antonis Manitakis (*Kathimerini*, 30/9/2012), highlighted the confusion between communication and fiscal goals in the Troika's approach to reforming the Greek PA, questioning the political effectiveness of their demands.

The reform process faced significant hurdles due to political discontinuities, resistance from vested interests, the lack of political consensus, and bureaucratic inefficiencies (Alvarez *et al.,* 2014: 11; Spanou, 2021: 143). Vested interests resisted the implementation of merit-based recruitment and promotion processes, threatening patronage networks and clientelistic practices (Featherstone *et al.,* 2018: 178; Spanou, 2018: 115).

The conditionality agenda's emphasis on quantitative targets fuelled resistance towards foreign-induced reforms and negatively affected the willingness of an already immobilised administration to perform (Alvarez *et al.,* 2014: 18-20; Spanou, 2021: 142). The Second Adjustment Programme's prescriptive conditionality reflected the credibility deficit characterising the Greek PA, stemming from inaccurate reporting of statistical figures and weak reform and administrative capacity.

The Samaras Government's delay in appointing the SGPR led the IMF to assert that the absence of effective leadership, vested interests, and inadequate political commitments blocked reform efforts (*Kathimerini*, 16/3/2014). This situation resulted from opposition by the public-sector union, which boycotted attempts to enhance the SGPR's audit capabilities (*Eleftherotypia*, 28/1/2013; 6/6/2014). The excessive focus on quantitative targets and layoffs hindered qualitative reforms.

The second programme's emphasis on quantitative targets for personnel reduction neglected qualitative aspects of administrative reform, causing the loss of skilled personnel and undermining public administration capacity (Alvarez *et al.,* 2014: 23). Moreover, the second programme failed to address issues such as weak policy coordination, limited strategic planning capacity, and the broader lack of accountability (Spanou, 2018: 116-118; 2021: 146-147).

Learning from the second programme's limitations, the third MoU (August 2015–August 2018) aimed to tackle the Greek PA's persistent issues in a comprehensive manner. The MoU prioritised meritocracy, transparency, openness, strategic planning, and policy coordination (ESM, 2015: 27-30). The third programme's conditionality included a more urgent and forceful administrative reform agenda, emphasising depoliticisation and Human Resource Management (HRM) (EC, 2016: 2,7-9, 11, 19-20).

The third adjustment programme addressed accountability issues by fostering a results-driven culture, simplifying administrative procedures, and expanding e-government services utilisation (ESM, 2015: 29-30). This approach aimed to improve policy implementation monitoring and evaluation, leading to a more effective public administration. The programme focused on quantitative targets, qualitative governance, and enhancing public-sector performance (ESM, 2015).

The third MoU's administrative agenda encountered opposition from the Civil Servants' Union (ADEDY) and senior Government Ministers (*Kathimerini,* 8/5/2015; 12/11/2015). In response, Greek Finance Minister Euclid Tsakalotos dismissed SGPR Katerina Savvaidou and appointed Ioannis Bakas. To regain the lenders' trust, the Independent Authority for Public Revenue (IAPR) was established in May 2016, detaching public revenue administration from the finance minister's direct control (FEK, 95A, 2016).

Regarding remuneration, the EC emphasised the importance of a fair and transparent salary system. In 2018, IAPR employees' average salary was €26,000 per annum (EC, 2019: 73), while the average Greek public-sector salary was €23,400 (OECD, 2018). This discrepancy highlights the need for performance-linked pay to attract and retain competent staff. The current remuneration system is deemed inadequate, lacking sufficient incentives for high performance or discouragement for underperformance (EC, 2019: 73).

In terms of performance assessment, the EC observed that the existing appraisal system lacks rigour and fails to differentiate between high and low-performing employees (EC, 2019: 74). Data shows that over 90% of IAPR employees received the highest performance rating (EC, 2019: 74), indicating the need for a more robust and objective assessment system. By comparison, performance ratings in other EU countries tend to be more evenly distributed (OECD, 2018).

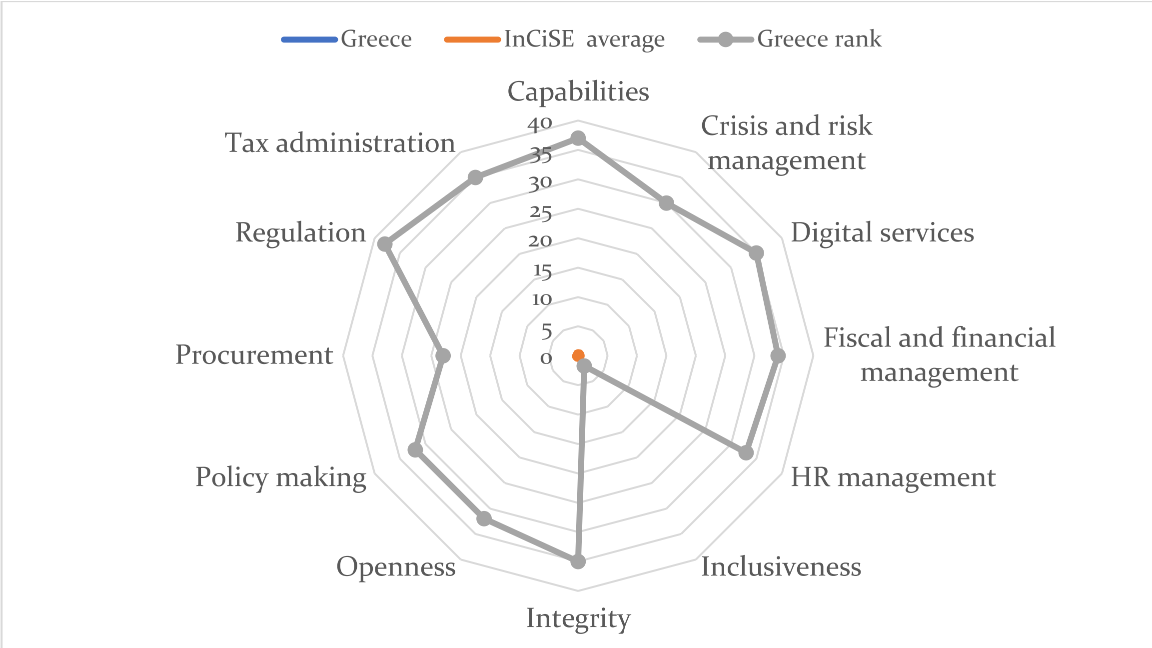
Spanou (2021) analyses the reform agenda and examines the content of the MoUs, focusing on the PA domain. The author explained that the second programme significantly increased the number and detail of conditionalities, elevating the PA into an independent field of intervention. Spanou (2021: 178) argued that the agenda became overloaded and overly detailed, engaging in "micromanagement" (Pisani-Ferry *et al.,* 2013: 75; Spanou, 2021: 270-290). The imposed reforms presented a "window of opportunity" for external actors to advance their preferred policy agenda.

Spanou discussed the challenges and outcomes of reforms between 2010 and 2018, highlighting the considerable influence of internal and external actors on the reform agenda. The domestic lack of political will to implement reforms posed obstacles, while the programmes were responsible for their shortcomings. Alvarez *et al.* (2014: 2) pointed out, "Greece was asked to achieve in a couple of months what would normally require years". The ECA (2017: 48) admitted that the overambitious deadline of 11 months for introducing and implementing an evaluation system was unrealistic.

In sum, whereas the Greek authorities implemented numerous financial management and fiscal administration reforms to conform with the externally prescribed *conditionality*, the PA reforms experienced prolonged delays or were not implemented (e.g., devising a comprehensive HRM strategy and a comprehensive Human Resource Registry). Whereas the adjustment programmes and the specific reforms they encapsulated sought to tackle the Greek PA apparatus' longstanding weaknesses and *bureaupathologies*, the Greek administrative apparatus has sustained its longstanding "quasi-Weberian'" patterns of operation, management, and organisation (see **2.2.IV**).

Figure 4.24: International Civil Service Effectiveness (Incise) Index 2019

Indicators	Greece	InCiSE average	Greece's rank
Capabilities	0.158	0.612	37
Crisis and risk management	0.495	0.632	30
Digital services	0.227	0.613	35
Fiscal and financial management	0.274	0.591	34
HR management	0.3424	0.5898	33
Inclusiveness	0.9262	0.6039	2
Integrity	0.185	0.5416	35
Openness	0.3428	0.5539	32
Policy making	0.3589	0.559	32
Procurement	0.4957	0.542	23
Regulation	**0**	0.4578	38
Tax administration	0.3195	0.5641	35



Adapted from: Blavatnik School of Government (2022).

Further evidence of the enduring problems characterising the Greek PA can be found in the Technical Report of the International Civil Service Effectiveness Index (InCiSE), which evaluates and compares the civil service systems prepared by the Blavatnik School of Government prepared by the Oxford 2019, out of the thirty-eight countries asses for this Index, Greece received the second-lowest overall ranking. Greece recorded poor tax administration scores, capabilities, and integrity indicators. **Figure 4.24** above shows that Greece achieves high scores in the inclusiveness indicator; the report highlighted that the country's strong performance reflects the "proportion of women working in the public-sector" (InCiSE) and senior positions in government (Blavatnik School of Government, 2019: 25, 43).

The Bertelsmann Foundation (2020: 14) and the European Bank for Reconstruction and Development (EBRD) (2020: 72) assessed various aspects of Greek public administration (PA), revealing ongoing governance challenges. The Bertelsmann Foundation highlights the pervasiveness of clientelistic practices (2020: 15), limited success in streamlining bureaucracy (2020: 18), and the need to strengthen regulatory agencies (2020: 20). The EBRD's Transition Report (2020: 35) suggests that Greece's governance quality improved but remains below the EU average according to the World Bank's Worldwide Governance Indicators.

Comparative analysis of both sources indicates progress in modernisation and anti-corruption efforts; however, enduring challenges like clientelistic practices, slow depoliticisation, and limited bureaucracy streamlining impede the development of an effective and transparent governance system. The IMF's IV Consultation (2021: 29, 37) highlights that high pension and public-sector employment costs drain the budget, crowding out health and education spending.

Despite the foreign-prescribed agenda's attempt to leverage the crisis-generated "window of opportunity" and address the Greek PA system's structural and institutional rigidities, entrenched patterns like tenure and lack of horizontal evaluation persist (Featherstone, 2005: 225). These issues inhibit Greece's ability to implement necessary reforms and perpetuate inefficiencies in the Greek PA apparatus.

After the post-2008 crisis and the 2010s adjustment programmes, the Greek PA underwent second-order changes (Hall, 1993) involving technical refinements without substantially affecting core principles, objectives, or paradigms. In the Greek PA context, this was evident through adopting new procedures and pursuing increased efficiency across various aspects of governance. However, these changes did not challenge or restructure the foundational principles and values characterising the public administration landscape before the crisis. Consequently, the Greek PA continues to face enduring challenges, revealing the limitations of second-order changes in effecting transformative and sustainable reforms.

The following section engages with Greece's reform capacity.

4.3.V Greek 'reform capacity' & the adjustment programmes

The 2008 crisis revealed the Eurozone's architectural flaws and the Greek political system's structural and institutional weaknesses (4.1.III and 4.2.I). The conditionality agenda aimed to address these deficiencies but instead worsened Greece's reform capacity. The Troika/Quartet viewed the crisis as an opportunity for Greece to implement overdue reforms (Thomsen, LSE, 2019; INT-2), leading to MoUs that extended into various policy spheres (IMF, 2011; 2014; 2017). Despite constraints, Greek authorities negotiated reforms, such as labour market adjustments and pension changes (Moury *et al.,* 2021: 60-62). However, the lack of policy ownership limited the government's negotiating ability (Moury *et al.,* 2021: 154-155).

Greek governments played a more decisive role in specifying measures (Moury *et al.,* 2021: 137-138, 147-148) but faced challenges implementing reforms. Vested interests obstructed reforms, and tax evasion persisted despite MoU-driven improvements in tax administration. Although tax revenues increased from 37.5% of GDP in 2015 to 39.3% in 2019 (Eurostat, 2014; 2015; 2019; 2020), a significant gap remained between enacted reforms and their actual impact.

The Greek pension system remained unsustainable, with pension expenditure among the EU's highest (Eurostat, 2021). In 2019, Greek pension expenditure amounted to approximately 16.2%, one of the highest rates in the EU (Eurostat, 2021), compared to the EU-27 average of 11.4%.

Public-sector employment reduction faced challenges due to a lack of political support, administrative capacity, and coordination among government agencies (EC, 2012: 29; 2015: 41). Opposition from trade unions and interest groups also hindered progress. According to Eurostat (2020), 21.4% of total employment in Greece is in the public-sector, compared to the EU average of 16.3%. The Hellenic Statistical Authority (2022) data showed a modest reduction in public-sector employment between 2010 and 2021.

The externally-induced adjustment measures often failed to achieve expected outcomes due to implementation challenges and vested interests. Greece's experience with MoU-linked reforms demonstrated a gap between legal adoption and actual implementation. A lack of ownership of externally induced adjustment measures contributed to this gap (Featherstone, 2011). Greek politicians often employed "blame avoidance" tactics, distancing themselves from unpopular reforms and attributing responsibility to external factors like the Troika.

Reforms were linked to the conditionalities of adjustment programmes, often implemented because they were connected to loan disbursements. The Greek case exemplifies implementation without adjustment or adjustment without convergence, where policy measures were not adequately adjusted to Greece's specific context. The externally-designed adjustment programmes lacked ownership from the seven elected Greek governments (see **4.3.II**; **4.3.III**; **4.3.IV**).

External pressure and weak incentive structures critically inhibited Greece's reform capacity. The "garbage can approach" (Cohen *et al.,* 2012: 20) characterized the adjustment with a disproportionate emphasis on front-loaded quantitative targets (Papaconstantinou, 2016: 127). The conditionalities stipulated in the adjustment programmes substantially neglected qualitative-related elements. In conclusion, the Greek crisis highlights the complexities and limitations of externally imposed conditionalities, demonstrating the need for increased policy ownership and a more tailored approach to reform implementation.

Former German Finance Minister Wolfgang Schäuble emphasised the importance of implementation in achieving meaningful change (*The Economist*, 2012). However, Greece's experience with MoU-linked reforms showed that externally imposed adjustment measures often failed to achieve their intended outcomes due to the lack of ownership and the influence of vested interests. The Greek political system often employed "blame avoidance" tactics, distancing themselves from unpopular reforms and attributing responsibility to external factors, such as the Troika (Featherstone, 2011). This lack of ownership hindered the effectiveness of externally-induced adjustments due to limited political will to enforce or implement them.

The Greek crisis illustrates that a one-size-fits-all approach to reform implementation can be counterproductive. Instead, policymakers should consider the country's specific political, social, and economic contexts and promote increased policy ownership to ensure more effective and sustainable reforms.

The 'one size fits all' approach adopted by creditors in response to the Eurozone Crisis was criticised for overlooking the political economy of reform, failing to engage with Greek society or recognise its interests (see **1.1.III**). This focus on threats and coercive mechanisms led to a domestic and international legitimacy deficit (see **1.1.III**), impeding Greek authorities' ability to implement crucial structural reforms amidst worsening socio-economic conditions (see **4.2.II**; **4.2.III**). Perceptions of external coercion (see **4.2.II; 4.3.I**) created a divide between domestic and foreign actors, with Greek authorities facing intense pressure to comply with macroeconomic and structural obligations.

Moury et al. (2021: 156) engaged with the five adjustment programmes signed by the Troika and the Eurozone countries in the 2010s (i.e., Ireland, Spain, Greece, Cyprus, and Portugal). They found that MoUs were often only partially fulfilled due to "special interests" (Tsebelis, 1999; Keefer, 2004: 11; Gehlbach and Malesky, 2010) significantly influencing the outcome. Despite varying relationships between national governments and the Troika, Moury *et al.* (2021: 154) reveal high implementation and ownership rates for spending cuts and structural reforms in Eurozone bailouts. However, they note variations in recipient countries' "fulfilment rate."

Moury *et al.'s* (2021: 154-156) examination found that non-implementation was "relatively rare," with at least 75% of the conditions of the MoUs being "at least partially implemented." Ireland and Spain led in fulfilment (Moury *et al.:* 154), with over 90% of the conditions of the MoUs partially fulfilled. These findings challenge conventional wisdom about Greece's compliance. Greece implemented 86% of the conditions in the three MoUs, ranking third highest among the five countries. However, reforms were frequently reversed during the programme, with Greece having the most reversals.

Moury et al. (2021: 156) underscore that each Greek MoU had different outcomes. The first MoU had 81% partial fulfilment, the second had the poorest record at 62%, and the third achieved the highest at 92%. The authors caution that their "quantitative findings do not necessarily imply that the conditions fully reached their objectives" or "that they were all adequate."

Institutions like the IMF, ECB, EU, and ESM identified Greece's elusive implementation record in their post-mortem reports (IMF, 2011; 2013a, b; 2017; ESM, 2016; 2019; EC, 2011; 2016; 2017; 2019a, b, c; 2020a, b). The Bertelsmann Foundation (2020) also highlighted the declining performance of the Greek state's executive capacity and policymaking indexes.

This thesis contends that path-dependent factors significantly impacted Greece's response to the post-2008 crisis, shaping measurable outcomes and affecting institutional processes during this critical period. International institutions' post-mortem reports provide further evidence of these factors' relevance (IMF, 2016: 15; EU, 2017: 102; European Court of Auditors, 2017: 16; ESM, 2019: 53).

First, cultural dualism, adversarial political culture, and polarisation in Greek politics, exacerbated by zero-sum nature and political violence, hindered Greece's reform capacity (Moury *et al.,* 2021). Political instability and lack of consensus prolonged the crisis, with foreign intervention and creditors' rhetoric further fuelling perceptions of humiliation. The media amplified these perceptions by overemphasising the adverse effects of foreign intervention and shifting blame to creditors (Spanou, 2021). The polarisation surrounding foreign intervention framed the crisis as an opportunity for overdue reforms or an externally imposed punishment. Conspiracies and their significance should not be overlooked (see **4.3.1**). The European Court of Auditors (2017: 16) highlights political polarisation's detrimental impact on political deadlock and policy implementation during the crisis, with conditionality often perceived as externally imposed, undermining reform credibility and exacerbating Greece's external dependence.

Second, the patronage-led political system, clientelism, and vested interests obstructed reform implementation by prioritising short-term goals over long-term structural changes. The IMF (2016: 15) asserts that these factors undermined Greece's ability to implement effective reforms, as resources were misallocated to specific interest groups, resulting in insufficient investment in essential public services and infrastructure.

Third, state intervention and influence in the economy, or étatism, combined with vested interests, hindered Greece's ability to adapt to the crisis by obstructing market-driven adjustments and fostering rent-seeking behaviour. The ESM (2019: 53) argues that this interventionist approach limited Greece's economic competitiveness and prolonged the crisis. Therefore, the link between conditionality, credibility, and external dependence becomes more pronounced as the state's overreach and inefficiencies heighten the need for external assistance while simultaneously hampering reform implementation.

Fourth, Greece's dysfunctional PA significantly undermined reform capacity during the three adjustment programmes. The EC (2017: 102) emphasises critical weaknesses in the Greek PA system, impacting Greece's credibility with international actors, leading to increased conditionality, greater external dependence, and ineffective reform implementation.

Despite high reform implementation, limited outcomes were achieved, with Greece primarily complying with the most technical and essential reforms (EC, 2018: 8). Greece achieved primary fiscal surpluses. However, public investment declined from 3.8% of GDP in 2009 to 1.1% in 2017 (IMF, 2021: 12), suggesting that Greece prioritised meeting fiscal targets over pursuing growth-enhancing structural reforms. Greece's performance in government effectiveness, regulatory quality, and control of corruption improved marginally between 2010 and 2018 (World Bank, 2019) but remained significantly below the OECD average.

The Greek case is notable for the political system's reluctance to clash with vested interests and core clientele and the systemic instrumentalisation of underdog culture. The SYRIZA government was criticised for making numerous clientelist and patronage-driven appointments, undermining meritocracy and perpetuating systemic inefficiencies. However, radical structural reforms that would make the country more competitive and extroverted were instituted inconsistently and elusively. Although Greece achieved the most significant fiscal adjustment (European Parliament, EMPL Committee, 2013: 9; IMF, 2013: 18) – equivalent to about 16% of GDP – its underlying competitiveness only marginally improved.

Reforms were legislated, but implementation was lacking (EC, 2011; 2012; IMF, 2012; 2016; 2018; OECD, 2014; 2016; 2019).

Administrative reform exemplifies this argument (see **4.3.IV**). Legislation efficacy and compliance with externally prescribed conditionalities pre-dated the crisis (EC, 2006; 2007; IMF, 2005). The ad-hoc strategy adopted by international lenders and monitoring institutions worsened the domestic business and regulatory environment, causing a loss of qualified civil servants and additional burdens on the pension system. Despite the impressive depth and degree of adjustment, implementing reforms created a de facto situation that made it difficult to overturn the resilience of the path-dependent pathogens.

4.4 Conclusion

This chapter charted the effects of the post-2008 shock on the Greek economy and investigated the complex link(s) binding the country's political and economic domains.

4.1 engaged with the main features characterising Greek economic development before the Eurozone Crisis. I highlighted that the *liberalisation* agenda of the 1980s, and the EMU stabilisation framework of the 1990s, posed an existential challenge to Greece's longstanding *state-led*, *deficit-* and *debt-fuelled* growth model. In addition to stressing the challenges Greece experienced in the prelude to adopting the euro, it also critically evaluated Greece's compliance with the so-called convergence criteria stipulated in the Maastricht, arguing that Greece failed to fulfil them adequately. Notwithstanding the country's participation in the Euro engendered swift and robust economic growth, after 2002, in hindsight, it obscured the nation's underlying macroeconomic imbalances, such as the onerous debt accumulated and the structural, as well as institutional weaknesses, which were laid bear with a vengeance once the crisis unfolded. In addition to stressing that successive Greek Governments failed to seize the benefits of the favourable economic environment, I argued that the significant backsliding in the implementation of productivity-enhancing reforms and fiscal discipline was manifested in the country's 'triple deficits (i.e. on the fiscal-, trade- and BoP- front), and onerous *debt overhang*, which in turn, sowed the seeds for the "perfect storm" which erupted in 2008.

4.2 explored the international transmissions of the 2008-2009 banking crisis and the ensuing *sudden stop*. I investigated the most significant political and economic developments in the post-2008 shock and the Eurozone crisis, particularly emphasising the three consecutive adjustment programmes agreed upon by the two successive Greek Governments and the country's lenders. While the adjustment programmes sought to curtail the country's *external dependence* and onerous *debt overhang*, the evidence suggests that they achieved the opposite.

4.3 explored the relevance and applicability of the path-dependent *pathogens* in the post-2008 period. It focused on how these structural and institutional indicators played a pernicious role, aggravating the effects of the shock but also obstructing the country's recovery. By assessing the endurance of these structural and institutional deficiencies throughout the post-2010 crisis, I sketched out how they magnified themselves both in the domestic and external context.

The main takeaway from this chapter is that while the *path-dependent pathogens* detrimentally hampered the Greek *credibility deficit*, they also shaped the country's response to the crisis, stood as a pernicious obstacle for the Greek authorities to exercise *ownership* vis-à-vis the reforms prescribed in the adjustment programmes. My analysis revealed that the path-dependent pathogens played an instrumental role in shaping the crisis and that the response concomitated the resilience of these features.

The next chapter concludes this doctoral thesis by summarising the presented work and comparatively reviews the similarities and differences between the two case studies examined – the Great Depression of the 1930s and the GFC of the 2010s. Moreover, it broaches the future research contours emerging from the systematic historical comparative analysis of the two crises for studying Greek Political Economy and the broader investigation of economic crises such as international sudden stops.

Chapter 5

Conclusion

Introduction

This chapter concludes this PhD thesis, reviewing the similarities and differences between the two empirical case studies – the post-1929 Great Depression and the post-2008 Eurozone Crisis – and summarises the presented work that has aimed to address the fundamental research question guiding this thesis:

Which factors shaped Greece's immediate response to the economic crises of the 1930s and 2010s?

This chapter also immerses the insights this thesis has produced, addressing the three sub-questions (SQs):

- **SQ1** *What were the core features of the Greek political system in the period preceding the outbreak of the post-1929 and post-2008 crises?*
- **SQ2** *How did the economic crises manifest themselves both domestically and internationally?*
- **SQ3** *How did Greece's international creditors respond to the international sudden stops, and what was their underlying recipe to mitigate the effects of the crises of the 1930s and the 2010s?*

Section 1 focuses on the methodological and theoretical contributions of this thesis. Built upon the Comparative Historical Analysis (CHA) and Historical Institutionalism (HI), this thesis makes an important contribution to the existing literature, bridging the gap between the existing analyses in history and economics. While rehashing the insights this study produces for our understanding of HI and path-dependence, I also highlight this thesis' contribution to the understanding of critical junctures as moments of historical transformation, and the continuity and change. This section stresses that the adoption of the CHA framework, allows this thesis to bridge the gap between the existing economic and historical perspective, fostering an in-depth analysis of the underlying causes and propellants of these crises. The adoption of the HI framework allows this thesis to uncover the deeply entrenched historicity of the domestic setting, as well as the factors shaping the country's response to these shocks, examining domestic and exogenous factors simultaneously. Another important take-away pertains to value of systematic single-country comparative analyses and historical research, which cross-country quantitative analyses have frequently overshadowed.

Section 2 outlines the structural similarities and differences characterising the Greek-specific and international settings. My comparative analysis adopts the optics of *credibility, conditionality,* and *external dependence*, which formed the backbone of the empirical analysis in chapters 3 and 4. By rekindling the parallels between three stages encompassing each shock: i) the run-up, ii) the manifestation, and iii) the immediate response of the post-1929 and post-2008 economic crises, I argue that whereas the two crises were *not* identical, they resemble striking similarities in their structural propellants and triggering mechanisms.

Section 3 offers a comparative analysis of the relevance and applicability of the perennial features characterising Greek political economy or *path-dependent pathogens*. It summarises how these factors shaped the immediate response to the post-1929 and post-2008 crises, addressing the fundamental RQ guiding this PhD. As the full impact of the changes and reforms implemented in Greece during the 2010s may not yet be entirely visible, adopting a cautious and balanced assessment is essential. While this thesis does not aim to discuss the long-term impact of the crisis on the Greek political economy paradigm, the key insight emerging from the comparison between the two periods concerns the resilience of the path-dependent pathogens.

Section 4 broaches the future research avenues emerging from this dissertation. While underscoring the potential of HI as a framework in Greece and applying path-dependence theory within the Greek context, I stress that the conceptual and theoretical foundations of this thesis could serve as a *pilot case* (Yin, 2017: 34) for systematic comparative historical analyses in the Greek-specific setting and other single-country historical comparisons for peripheral economies, especially in South-Eastern Europe, as well as exploring the role of economic ideas and economic thought during crises. While making an important contribution to the debate examining continuity and change in Greece, this thesis hopes to serve as a starting point for developing a historical political economy approach in the Greek-specific setting.

5.1 The Theoretical & Methodological Contributions of the Thesis: Establishing a Multidimensional Approach for Understanding Modern Greek Politics

This section discusses the contributions emerging from this thesis' methodological and theoretical underpinnings. By adopting the methodological framework of Comparative Historical Analysis (CHA) and the HI theoretical framework, this thesis formulates a *structured qualitative and focused comparison* of the 1930s and the 2010s. This "multidimensional approach" (Marsh, 1999: 23) stands out because of its strong historical perspective that is theoretically-informed, and empirically grounded. This thesis presented a more nuanced understanding of each of the three stages of the crises without overlooking the global monetary, financial, and economic systems or the domestic setting's deeply entrenched historicity and peculiarities.

The thesis' methodological strength lies in using CHA, a potent comparative tool. Its uniqueness is in its use of CHA and Historical Institutionalism (HI) to concurrently examine Greece's 1930s and 2010s. By adopting the CHA approach, this thesis reconciles the competing perspectives of historians and economists – both in the Greek-specific and international context – (see **Introduction**) offering a nuanced investigation of the underlying dynamics shaping the country's response to these crises. This thesis challenges Tooze (2015) and Psalidopoulos (2018) who caution against drawing comparisons between the 1930s and the 2010s on the basis that this these two distinct periods are isolated from each other, and that such a comparison could overshadow significance or uniqueness of each event. It is important to note that this thesis does not argue that the two crises were identical; rather, it acknowledges the unique historicity and characteristics defining each episode

By weaving together multiple conceptual and theoretical insights from the International Political Economy (IPE) and International Relations (IR) literature, three key conceptual building blocks - conditionality, *credibility*, and *external dependence* – emerge to guide the empirical analysis the two crises - the post-1929 Great Depression and the post-2008 Eurozone crisis. This interdisciplinary paired with CHA allows a comparative investigation, identifying similarities and between the post-1929 and post-2008 crises, while considering Greece's position within the broader international economic, financial, and monetary systems.

The organising principles of credibility, conditionality and external dependence allow me to explore both crises in a way that does not eschew the international system nor in a way that isolates the peculiarities of the domestic setting. This is particularly important because, in most analyses focusing on Greece's experiences with crisis, the more deeply-entrenched and historical processes have not been adequately highlighted due scholars' search for a greater narrative (see, indicatively, Kalyvas, 2015; Dertilis, 2016). These organising principles are complemented with the adoption of a robust theoretical anchor and methodological framework, formulating a deep historical perspective that is theoretically involved and empirically driven. The analytical foundations, or optics, of *conditionality*, *credibility* and *external dependence* will also guide my comparative analysis in **5.2** and **5.3**.

The methodological contribution of this thesis primarily stems from the adoption of CHA, a powerful comparative tool for identifying similarities and differences. The adoption of HI and CHA to compare these two periods sets this doctoral dissertation apart from other historical and comparative literature on Greece. That is greatly attributed to the fact that this is the first work to emerge adopting CHA in tandem with HI to simultaneously examine the 1930s and the 2010s in Greek political economy. Applying this mixed-methods approach, the study utilises descriptive economic statistics, building on the previous work of Mavrogordatos (1983), Kostis (1986) and Mazower (1991) and adopting a contemporary perspective. It expands on comparative-historical insights of Chouliarakis and Lazaretou (2014), Reinhart and Trebesch (2015) and Chouliarakis *et al.*, (2017), who arguably neglect the role of politics in their time-series analyses, by particularly focusing the role of domestic politics in tandem with the most significant economic developments.

The thesis' methodological approach enables a detailed, comparative examination of the two crises, providing rich insights into Greece's political economy's underlying dynamics and responses. By systematically comparing the crises, this thesis illuminates the complex interplay of historical, political, and economic factors influencing Greece's immediate response to the crises of the 1930s and the 2010s, revealing the cyclical nature of these events and their broader implications.

This thesis's methodological contribution also extends to the data collection, combining historical and contemporary primary sources, such as archival material, official documents, diplomatic transcripts, press releases, and news reports, supplemented by semi-structured elite interviews and private communications for the post-2008 crisis case study, which in turn, enhances the empirical rigour and robustness of the research findings. These sources provide a rich and detailed account of Greece's political and economic landscape during the critical periods under investigation, aiding our understanding of the path-dependent nature of the country’s institutional, social and political configurations and their impact on contemporary economic challenges, enhancing its originality and contribution to the existing works of literature.

This thesis makes several theoretical contributions.

Primarily, it is the first to apply the HI and path-dependence theory in the Greek context, focusing on the political economy of the 1930s and 2010s. This approach uncovers original parallels and recurring patterns between the periods and examines some features' resilience. The thesis argues that the Greek experience of the inter-war years significantly enhances our understanding of the post-2008 Global Financial Crisis. The economic disruption and political upheaval of the 1930s provides a valuable historical context, deepening our understanding of the systemic dynamics that shaped the country's response in the 2010s and its broader implications.

Secondly, this thesis offering a novel perspective on the persistence of crises and hindrances to change. This thesis makes the original argument that *path-dependency* not only conditions a country's response to economic crises but can also prolong the duration of these shocks by constraining decision-making and obstructing change. Moreover, it analytically examines the impact and effect of externally induced conditionalities, combined with the demands of the country's creditors, international lenders, and the involvement of international organisations, combined with the limitations of externally induced adjustment. The insights this thesis produces expand our understanding of the role of *path-dependency* in economic crises, particularly in Greece. Additionally, it highlights the need for examining both domestic and foreign factors in analysing crises, ensuring a balanced investigation.

Thirdly, by expanding on Collier and Collier (1991) and (Capoccia and Kelemen, 2007: 353), this thesis argues that a crisis will only lead to a critical juncture (see **2.1.III**) if a persuasive narrative reflects on what went wrong and proposes solutions). Therefore, a "candidate critical juncture" can degenerated into a "missed critical juncture" if the domestic political apparatus fails to acknowledge the need for change in the political and economic paradigm, leading to marginal impact (Pierson, 2000: 476). When the domestic political apparatus adopts a blame-shifting narrative, attributing the crisis's root causes to external factors or political rivals, it is unlikely that deep-seated change can occur (Blyth, 2001: 20). In contrast, deep-seated change materialises when the political apparatus recognises the necessity for decisive intervention and radical change in the domestic political and economic paradigm (see **2.2.IV**; **2.3**).

Fourth, adopting path-dependence and rekindling the Greek-specific and comparative scholarship, this thesis contributes original insights, on five perennial features characterising the Greek-specific setting.

These are the following:

i) the enduring cultural dualism and adversarial nature of Greek party-political competition.

ii) the patron-client relationships tying the Greek political apparatus to the electorate, known as patronage politics or partitocrazia.

iii) the state's pronounced role and routine intervention in the Greek economy, termed étatism.

iv) the intrinsic weaknesses within Greek public administration (PA).

v) Greece's systemic issues in executing externally prescribed reforms or reform capacity.

These endogenous features are significant as they pose considerable obstacles to implementing reforms and appear relevant in both crises. The domestic path-dependent pathogens are considered *intervening variables* conditioning the dependent variable in both instances (see **3.3**; **4.3**). The *intervening variables* include: i) the essential features of the Greek political system, identified as the path-dependent pathogens that shape the domestic landscape and condition the government's response; and ii) the country's creditors' demands, further influencing policy choices and institutional transformations in Greece amid the crises. Collectively, these variables elucidate the complex interplay between domestic and international factors in moulding Greece's institutional responses and policy changes in the face of the examined crises.

Figure 5.1: The Variables Examined

Independent Variable	'Sudden stop,' Role of *external dependence*, Credibility
Dependent Variable	Immediate response to the crisis
Intervening Variable	The key features of the Greek political system (defined as *path-dependent pathogens*) and The demands of Greece's international creditors

Figure 5.1 concisely outlines the PhD thesis' variables.

The *dependent variable* encompasses the Greek political system's immediate response to the crisis, comprising the government's policy decisions and reforms. In addition to scrutinising international creditors' demands and their relationship with Greece, this thesis investigates each crisis' politico-economic developments, specifically:

i) the period preceding or setting the stage for each episode.

ii) the outbreak of the crisis.

iii) the response to the crisis.

To gain deeper insights into the policy instruments employed and reforms implemented to address each crisis, this thesis investigates the systemic characteristics of the Greek political economy (see **Chapter 2**) and the intricate interplay of endogenous and exogenous factors in the run-up and outbreak of each crisis.

The *independent variables* comprise 1) the sudden stops, denoting the abrupt cessation of international capital flows that instigated the crises of the 1930s and 2010s; 2) the role of external dependence, reflecting Greece's reliance on foreign creditors and partners during the crises; 3) the role of credibility and reputational factors, encompassing the trust and confidence that Greece's international counterparts placed in its crisis management and resolution abilities. The thesis emphasises that Greek external dependence, coupled with the credibility deficit, exacerbated the country's vulnerability to shocks, resulting in more stringent conditionality imposed by creditors.

This thesis identifies the factors that shaped Greece's immediate response to the two crises. However, it refrains from offering definitive conclusions regarding whether these episodes instigated a paradigmatic shift in the nation's political economy. Considering that Greece concluded its third bailout in 2018, determining the long-term ramifications of this recent instance of economic crisis management remains premature. Furthermore, as we are still in close temporal proximity to the Eurozone crisis, not all changes may be readily discernible.

Moreover, it is not unequivocal whether the post-2008 turbulence exerted a similar "epoch-changing effect" as the Great Depression (Cassis and van Helten, 2021: 10). Following historians such as Tooze (2019), this thesis posits that the history of the crisis extends beyond the present moment, rendering it premature to classify the post-2008 crisis as a critical juncture. That being the case, while the thesis contends that the crisis of the 2010s marked a turning point for Greece concerning the foreign intervention in its domestic political and economic systems, it acknowledges that the long-term consequences are still unfolding and may become more apparent as time progresses.

The next two sections of this concluding chapter focus on this thesis' empirical contributions. Whereas **5.2** focuses on the comparative insights emerging from the empirical chapters focusing on the run-up, manifestation, and immediate response to the crisis, **5.3** focuses on the relevance and applicability of the *path-dependent pathogens* in both periods and engages with how they shaped the outbreak of the crisis, and its immediate response. Moreover, this section also delineates the limitations and weaknesses of this PhD thesis.

5.2 The post-1929 & post-2008 crises in Comparative Perspective

This section reviews the arguments developed to provide a cogent answer to the fundamental research question guiding this dissertation: ***Which factors shaped Greece's immediate response to the post–1929 and post–2008 crises?***

To achieve this, **5.2.I** critically reviews the modalities defining the Greek and international setting in the period preceding the two crises and addresses the following Sub-Question (**SQ1**): ***What were the core features of the Greek political and economic system in the period preceding the outbreak of the crises in the 1930s and 2010s?*** In the late-1920s and early 1990s, to improve its *credibility* (see **1.2.III**), Greece "tied its hands" to an external anchor by adopting a fixed-exchange-rate system such as the Gold Exchange Standard (GES) and the European Monetary Union (EMU) both of which were coupled with the rigorous conditionalities stipulated in the Geneva Protocol and the Maastricht Treaty. However, I highlight that during the international boom before the outbreak of the post-1929 and post-2008 crises, the Greek economy was not diversified, and Greek Governments failed to exercise fiscal prudence and accumulated onerous *debt overhangs* (see **1.3.II**).

5.2.II covers the outbreak of the two global shocks and answers ***SQ2*****:** ***How did the economic crises of the 1930s and the 2010s manifest themselves on the domestic and international levels?*** I underscore that the post-1929 and post-2008 crises were triggered by a chain of causations and other systemic processes, which allowed the 'crash' in the US Stock Market to spread worldwide. I argue that two features responsible for transmitting the shocks from the US to Europe, and Greece, which compounded the severity and international dimension of these shocks: i) the financial interdependence characterising the global economy; and ii) the fixed-exchange-rate currency system.

5.2.III critically engages the architecture of the GES and EMU as monetary regimes. I formulate my analysis by immersing the similarities and differences of the responses devised to mitigate the effects of the post-1929 and post-2008 crises, focusing both on the Greek-specific and international settings, thus rehashing the arguments presented to address ***SQ3***: *How did Greece's international creditors respond to the country's economic predicament, and what was their underlying recipe to mitigate the effects of the crisis?* The complex modalities of the domestic setting are explored in more detail in **5.3**, which comparatively examines the relevance and applicability of the path-dependent pathogens in the two periods and their manifestation and resilience in the 1930s and the 2010s.

5.2.I Run-up to the Crises

In the period preceding the post-1929 and post-2008 shocks, Greece experienced recurrent macroeconomic turbulence and rampant inflation. Between 1922 and 1926 and between 1994 and 1999, the Greek drachma lacked *currency trust* (see **3.1.I; 3.1.II; 4.1.I**; **4.1.II**), and the Greek economy excessively depended on imported goods and foreign capital. In addition to Greece's *external dependence* was its onerous *debt overhang* (**1.3.II**) combined with the fact that the Greek state's debts were owed in a foreign currency and to foreign claimants, in both periods examined, Greece suffered from the *original sin* (see **1.3.I**; **3.1.II**; **4.1.II**).

Both in the late-1920s and the early 1990s, in exchange for the disbursement of borrowed proceeds from abroad (see **3.1.IV**; **4.1.I**), the Greek governments were obliged to curtail the public deficit, limit the drachma's depreciation, and implement various structural reforms to conform to the 'canon of the times' (see **3.1.III**; **4.1.II**). **Figure 5.2** below, synthesises the similarities in the features encompassing the pursuit of stabilisation prior to the outbreak of the post-1929 and post-2008 crises.

Figure 5.2: The Greek Economy in the run-up to the Crises

Characteristics of the Greek economy ensuing the adoption of stabilisation	TIME-PERIOD	
	1920s	2000s
Pursuit of stabilisation (Controlling inflation and monetary/fiscal discipline)	✓	✓
Externally prescribed *conditionality* accompanying the pursuit of stabilisation	✓ 1927 stabilisation programme sponsored by the LNFC	✓ 1991 stabilisation programme sponsored by the European Communities
Greece' ties its hands' to an external anchor to remedy the *credibility problem* by sacrificing control over exchange-rate policy.	✓ Drachma Pegged to the pound sterling in 1928 to enjoy de facto participation in the GES. 1 £ (GBP) = 340 drachmae	✓ Drachma pegged to Deutsch Mark & ECUs from 1999, to join EMU in 2001 1 € (EURO)= 340.750 drachmae
Stock market & investment boom	✓	✓
Rapid accumulation of foreign debts in the aftermath of stabilisation	✓	✓

The Tripartite Loan of 1927 and the Geneva Protocol of 1928 stipulated that the Greek monetary authorities had to conform to the CB orthodoxy (see **3.1.III**; **3.1.IV**;

3.3.III; **3.3.V**). Similarly, in 1991, the externally-prescribed conditionality of the European stabilisation loan postulated detailed fiscal conditions and specified numerous reforms related to liberalisation, marketisation, and privatisation (see **2.2; 4.1.IV; 4.1.III**). Due to the Greek party-political system's adversarial and 'zero-sum' nature (see **2.2.I; 3.3.I; 4.4.I; 5.3.I**), the domestic polarisation detrimentally obstructed the country's capacity to comply with the foreign demands (see **2.2.V; 3.3.V; 4.4.V; 5.3.V**). In the late 1920s, the Liberal and Popular Parties resisted the transformation of the National Bank of Greece (NBG) into a *bank-de-depot* and encumbered Greece's capacity to comply with the reforms sponsored by the League of Nations Financial Committee (LNFC). Similarly, in the early 1990s, Mitsotakis' centre-right government encountered fervent opposition from PASOK and KKE vis-à-vis liberalisation and privatisation (see **3.1.IV**; **3.2.III**; **4.1.I**).

In addition to the *conditionalities* attached to the disbursement of foreign loans, Greece's pursuit of stabilisation in the 1920s and the 1990s was also inextricably tied to adopting an external anchor or fixed-exchange-rate monetary system. Whereas the Geneva Protocol of 1927 spelt out the conditions which countries had to meet to participate in the GES (see **3.1.III**; **3.1.IV**), the EMU accession, or Maastricht Convergence criteria, laid out the conditions for EU member-states to be eligible to join EMU (see **1.1.III**; **4.1.I**). These *conditionalities* required the implementation of overdue reforms, and entailed a fundamental departure from the Greek *status quo* and drew a polarising cleavage domestically (see **2.1.III**; **3.1.IV**; **4.1.IV**).

The signing of the Geneva Protocol (see **3.1.III**; **3.1.IV**), combined with the establishment of the Bank of Greece (BoG), paved the ground for Greece to participate in the GES at a fixed rate of 340 drachmae per pound-sterling (£) (see **3.1.IV**). In the 1990s, simultaneously pursuing fiscal prudence, Greece adopted the 'hard drachma doctrine', and ultimately, in 1999, it joined the EMU at a rate of 340.75 Drachmae per Euro (€) (see **3.1.IV**; **4.1.II**).

Figure 5.3: The mechanisms encompassing the adoption of external anchors.

pursuit of stabilisation + adoption of external anchor, or fixed exchange-rate system = "stamp of approval" + country trust

adoption of GES & EMU + country trust +inflow of investments +more favourable borrowing terms (i.e., interest rates)

External anchor (GES/EMU) + *borrowed* credibility + country trust
Country trust + improved sovereign credit rating & less country 'risk'

Both in 1928 and 1999, by 'tying its hands' (Alesina and Tabellini, 1990) to external anchors – the GES and the EMU –Greece was able to generate policy *credibility* (see **1.2.II**). **Figure 5.3** above illustrates the mechanisms surrounding the adoption of fixed-exchange-rate systems. In addition to improving its international credit rating, since the adoption of the external anchor was perceived as a good "housekeeping seal of approval" (Bordo and Rockoff, 1996: 389), it acted as a catalyst for the country to secure borrowing from abroad in much more favourable terms than before (see **1.2.III; 2.III; 3.1.III**). However, to enjoy the benefits of a fixed-exchange-rate system, Greek policymakers surrendered control over their ability to adjust the exchange rate and resort to devaluation. In retrospect, sacrificing monetary autonomy was crucial because it predicated a more difficult adjustment against the backdrop of macroeconomic turbulence (see **5.2.II**; **5.3.III**).

While in the 1920s, international investments were channelled towards major infrastructure projects – the so-called 'productive works' (see **3.2.I**; **3.2.II**) – in the 2000s, Greece engaged in spendthrift infrastructure projects, including but not limited to airports, highways, and other venues, associated with the 2004 Olympic Games (see **4.1.III**; **4.2.I**).

When Greece 'tied its hands' (Alesina and Tabellini, 1990) and joined the GES and EMU, the domestic reformist momentum receded to the background, and the country began reneging on its externally prescribed *conditionalities* (see **3.2.II; 3.2.III; 3.3.V; 4.2.I; 4.3.V**). For instance, in the late-1920s, the Greek political apparatus, the NBG, and the Greek commercial banks treated the BoG with hostility, *detrimentally* impairing its capacity to meet its statutory obligation to keep its foreign exchange reserves at 40% of the currency in circulation (see **3.2.II; 3.2.III; 3.2.IV**). Whereas Greece joined EMU in 1999, by the mid-2000s, the country's debt- and deficit figures exceeded the statistical thresholds stipulated in the Stability and Growth Pact (see **1.1.III; 4.I.III; 4.2.I**).

More importantly, following the *de facto* adoption of the GES in 1928 and the introduction of the Euro in 2002, Greece failed to diversify its economy, engaged in reckless public borrowing, and accumulated *onerous debt overhangs* (see **1.3.II**). Whereas between 1928 and 1932, Greek borrowing from abroad surged to roughly 238 million drachmae or about a quarter of GDP; by the end of 2009, Greece's outstanding public debts reached €293 billion, exceeding 100% of GDP (see **3.1.IV; 3.2.I; 4.2.I**). At the onset of both crises, what ultimately posed a serious challenge to the country were the state's deficits vis-à-vis the budgetary, current account and trade dimensions, or *triple deficits,* which also negatively affected the country's *competitiveness*.

The next section examines the similarities and parallels between the 1930s and the 2010s, focusing on the manifestation of the crises.

5.2.II Manifestation

The first parallel in the manifestations of the post-1929 and post-2008 shocks was that they broke out in the aftermath of a sustained international *boom-and-bust cycle* (Quinn and Turner, 2020) and were triggered by a Crash in the New York Stock Exchange (NYSE), which depleted international confidence and triggered an abrupt halt in capital flows and lending, or *sudden stop*. Consequently, credit disintermediation and investment liquidation processes deteriorated into a *credit crunch* (see **3.2.I**; **4.2.I**), propagating both shocks globally.

Figure 5.4: The Structural Propellants & Transmission Mechanisms of the Crises

Structural Propellants & Transmission Mechanisms of exogenous shock	**YEARS**	
	Post-1929 crisis	**Post-2008 crisis**
Boom-and-bust cycle in international lending	✓	✓
Sudden stop	✓	✓
Banking crisis	✓	✓
Sovereign-bank doom-loop	✓	✓
Balance-of-payments crisis	✓	✓
Trifecta shock	✓	✓
Currency crisis	✓	× (de facto currency crisis for the Eurozone)
Trade slump (domestically and internationally)	✓	✓
Collapse in economic output	✓	✓
Complex interdependence characterising the international financial system	✓	✓
Deflationary pressures exerted by the monetary system	✓	✓

During the 1920s, international capital flows peaked in 1928; in the 2000s, they peaked in 2008. During both periods, the distress which engulfed the American financial sector had global repercussions and was the key structural propeller, transmitting the *sudden stop* to the real economy. Unlike the late 2000s, when the shockwaves of Lehman Brothers' collapse were felt worldwide, in 1929, the Crash in the NYSE did not trigger a global panic, and until 1931 European stock markets and banks appeared to be insulated from the shock. **Figure 5.4** above, summarises the *structural propellants* of the two crises.

During the 1930s, the crisis reached the Greek economy with a one-year delay and manifested itself in the country's balance of payments and via the sharp decline in agricultural exports and foreign remittances (see **3.2.I**). Conversely, the US Crash in September 2008 was immediately felt in the Greek economy, manifesting itself via the export and tourism sectors and the surge in borrowing costs. The event that exposed the vulnerabilities of the international financial system during the 1930s was the collapse of Austria's Creditanstalt in May 1931, precipitating a European-wide *banking crisis*. Expanding on James (2009), who argues that the *Creditanstalt* crisis of 1931 had a more detrimental impact on the international economy than the Crash of 1929, I argue that the repercussions of the banking crises of 2011, and 2015, were more corrosive for Greece than the 'Lehman shock' in 2008.

The second parallel between the post-1929 and post-2008 shocks pertains to the element of contagion. Both the 1929 and 2008 *sudden stops* exposed the fragilities of the global financial system, combined with the pitfalls of the interdependence of fixed-exchange-rate systems – the GES and EMU.

Financial & Trade Interdependence

The first *structural propellant* of both crises was the financial interdependence of the global economy, combined with the mutually reinforcing exposure between banks and countries or *bank-sovereign doom-loop* (see **1.1.II**). Because of the complex ebbs-and-flows of the international financial system of the 1930s and 2010s, the collapse of financial institutions in one country triggered banking panics and failures elsewhere (see **3.2.II**; **4.2.I**; **4.2.II**). Although the banking crisis of the

Creditanstalt crisis of 1931 accounted for 55.6% of world GDP, during the 2010s, the Eurozone banking crisis – the most widespread banking crisis since 1931 engulfed 33.5% of global GDP (Maddison, 2010; Reinhart, 2010).

Both shocks precipitated a slump in international trade. During the post-2008 crisis, the decline in the international trade volume was more severe than in the 1930s. Although between September 2008 and April 2009, international trade shrunk by 18%, compared to pre-crisis levels, during the post-1929 shock, by June 1930, the volume of international trade was 8% below pre-crisis levels (Gopinath *et al.,* 2012; O'Rourke, 2009).

Fixed Exchange-Rate Currency Systems

The systems of fixed exchange rates were the second structural propellant of both crises, which transmitted the aftershocks of the sudden stops to the international economy and Greece. In both crises, the loss of monetary autonomy and systemic weaknesses of the monetary systems degenerated into a more severe deflationary spiral for peripheral countries. Therefore, while Greece was confronted with a balance of payments, a banking crisis, and a debt crisis in the 1930s and the 2010s, the deflationary pressures of the fixed-exchange-rate system raised the burden of the country's outstanding debts or *debt overhang*. Greek Governments had no alternative but to minimise their spending to generate credibility. However, Greece's debt burden rose with unanticipated deflation in the 1930s and the 2010s. Although there are numerous parallels between the two fixed-exchange rate systems, when joining the EMU, countries adopted an external anchor on a more *absolute* than *contingent* basis. During the inter-war GES, when confronted with extraordinary conditions, countries could unpeg their exchange rates and abandon the GES without triggering a major stalemate with their creditors and experiencing pronounced repercussions vis-à-vis investment.

Conversely, during the 2010s, in the system of *irrevocably fixed exchange rates* encompassing EMU, there was no template to temporarily abandon EMU since the EU Treaties did not envision the future re-introduction of national currencies by member-states. EMU's conditionalities and operational mechanisms were far more stringent and rigid to avoid a moral hazard scenario than the inter-war GES. **Figure 5.5** below captures the features characterising the Greek economy during the manifestation of the crises.

Figure 5.5: The Greek economy during the outbreak of the crises

Characteristics of the Greek Economy during the Outbreak of the Crisis	**YEARS**	
	Post-1929 shock	**Post-2008 shock**
original sin	✓	✓
Excessive foreign indebtedness (debt overhang)	✓	✓
Excessive external dependence & triple deficits (i.e., trade balance, imports of primary goods, and capital)	✓	✓
Credibility deficit & lack of country trust	✓	✓
Balance-of-payments problems	✓	✓
Violation of externally prescribed conditionality	✓ Geneva Protocol's stipulations for the BoG to maintain 40% of its currency in gold reserves	✓ EMU's statistical thresholds of debt- and deficit-to-GDP figures
Triple deficits (trade, balance-of-payments, budget)	✓	✓

The next section identifies parallels concerning the immediate response to the economic crises of the 1930s and the 2010s.

5.2.III Immediate Response

Against the backdrop of the post-1929 and post-2008 crises, the Greek political apparatus reacted as if Greece's economy was insulated from the international shock. In retrospect, I argue that *disaster myopia* displayed by policymakers paved the ground for a series of crucial policy errors. Similarly to PM Venizelos, who in December 1929 argued that "the Greek economy is insulated from the shock" (*Kathimerini*, 9/11/1929: 1; *Banque d' Athènes*, 20/1/1930: 1640-1643) and that the country's capacity to maintain that the drachma's peg to the British pound would be "unimpaired and undisturbed" (BoG, 1929: iii), at the outset of Lehman's collapse in 2008, PM Karamanlis contended at the Thessaloniki International Fair that the impact of the shock on the Greek economy was expected to be "marginal and absorbable" (*Kathimerini*, 6/9/2008) (see **3.2.I**; **4.2.I**). **Figure 5.6** below captures the features characterising the Greek response and outcome of the two crises. In 1931, instead of following Britain, which abandoned the GES and devalued the pound, Greece fought the "battle of the drachma". By increasing the discount rate, the BoG engaged in 'monetary tightening' (see **3.2.II**), which worsened the currency crisis and resulted in twelve bank failures.[4]

Similarly, in the 2010s, by raising interest rates in the spring and summer of 2011, the ECB compounded the plight of the EMU's peripheral economies (i.e., Greece, Spain, and Portugal) and speculations regarding the currency regime's disintegration. In addition to paralysing consumption and investment, CB's policy errors of CBs during the 1930s and 2010s triggered a precipitous fall in prices and increased the burden of existing debt. Whereas the BoG and the GES were responsible for aggravating the flight of capital and the ensuing debt-deflationary spiral which unfolded in Greece between September 1931 and April 1932, the ECB's passive 'stop-and-go' policy prior to the official launch of QE in late-2014 was responsible for the deflationary cycle which engulfed Greece between January 2013 and August 2015.

[4] The earlier countries abandoned the GES, and devalued their currencies, the sooner they recovered from the post-1929 crisis (see **4.2.III; 4.3.V**).

Figure 5.6: Greece's Immediate Response to the Crises of the 1930s and the 2010s

Feature of the Immediate Response	**YEARS**	
	Post-1929 crisis	**Post-2008 crisis**
Disastrous myopia	✓	✓
Compelling crisis narrative	×	×
Financial intervention by international creditors	No bailout was disbursed, but a debt agreement was struck with creditors	✓
Pursuit of Currency Devaluation	✓	×
Default on debt payments	✓	✓ * "arrears" towards the IMF in Jun. 2015
Successful pursuit of export-oriented strategy	×	×
Debt restructuring agreement reached with international creditors	✓	✓
Return to pre-crisis GDP levels	✓ ✓ 3 years	× × 31 years (expected) (IMF, 2019)
Political & Economic crisis	✓	✓

In the 1930s, the corrosive repercussions of the *sudden stop*, combined with the banking and currency crises, derogated international collaboration. The shock exposed that the international financial system lacked an international lender of last resort (LoLR). This became apparent to Greece in 1932 when the Venizelos Government reached a dead-end with its international creditors over two separate loans of £50 million and 200 million drachmae.

While in the 1930s, when there was no international LoLR and CB cooperation "was not a reality" (Siepman), *ipso facto* propagating the collapse of the GES (see **3.2.III**), during the post-2008 *sudden stop*, the US Federal Reserve (2012) established itself as the guarantor of the international financial system, issuing $10 trillion of liquidity between December 2007 and August 2010 to CBs around the world.

Following the G-20 summit in November 2008, the IMF pledged $1 trillion in international macroeconomic support, and together with the ECB, and the European Union, it formed the *Troika*. The *Troika* functioned on an ad-hoc and country-by-country basis and had been devised for non-EMU countries. When Greece requested financial assistance from its European partners in April 2010, EMU lacked the institutional and structural tools, or *crisis-management toolkit*, for the ECB to act as the EMU's LoLR.

Unlike the 1930s, when the Greek state had no alternative but to default towards its foreign creditors officially, in the 2010s, because of the contagion speculations, Greece's partners and creditors sought to avoid a Greek default, hence defending the *irreversibility* of EMU "at all costs" (PVT COMM-6). **Figure 5.7**, below, captures the characteristics of the international response to the crises.

Specifically, between 2010 and 2016, EU institutions channelled rescue programmes to EMU member-states totalling €381.4 billion, out of which Greece received €231.2 billion, combined with the IMF's contributions of €31.7 billion. Notwithstanding the institutional and political obstacles, policymakers utilised European and multilateral channels to mitigate the threats of contagion, which the post-2008 shock impregnated.

***Figure* 5.7** International response & the crises of the 1930s and 2010s

International Response & Outcome of the Crisis	**YEARS**	
	Post-1929 crisis	**Post-2008 crisis**
Resilience of multilateralism	×	✓
International Lender of last resort	×	✓
CB collaboration	×	✓
Reigning protectionism	✓	×
Competitive currency devaluations globally	✓	×
Prescription of Externally-prescribed *conditionality*	× * But *not* accepted by Greek Governments	✓
Deflationary pressures exerted by the monetary system on *peripheral countries*	✓	✓
Dissolution of the monetary system	✓	×

While in the 1930s, Greece was unable to receive either a *pre-emptive* or *consensual* debt restructuring agreement, and the country's foreign creditors only agreed to postpone foreign debt payments for one year, in the 2010s, Greece received the largest nominal 'haircut' in history (Congressional Research Service, 2017: 1). That being the case, the debt restructuring agreement which Greece reached with its private creditors (i.e., the Greek Private Sector Involvement scheme, or PSI), combined with the necessity of obtaining three successive bailouts demonstrates how Greece was indeed a "special case" in the post-2008 Eurozone crisis (ESM, 2022).

Both in the 1930s and the 2010s, Greece's European creditors (i.e., France and Germany, respectively) demanded from the government in power to slash or even freeze the wages of Greek public-sector employees. However, in the 1930s, Greek Governments did not concede to the demands of foreign creditors (i.e., France). In contrast, against the backdrop of the Eurozone Crisis, successive Greek Governments realised that there was no alternative but to accept the externally prescribed measures.

The next section engages with the path-dependent pathogens in the 1930s and 2010s and identifies the limitations and weaknesses of this PhD thesis.

5.3 Greece's chronic pathogens in Comparative Perspective

Generally, financial-cum-economic crises are understood as processes of historical transformation. However, when examining crises, I must place them in the context of an intersecting bundle of issues surrounding the domestic setting. This section reviews the relevance and applicability of the *path-dependent pathogens* in the context of the post-1929 and post-2008 shocks, something synthetically illustrated in **Figure 5.8**.

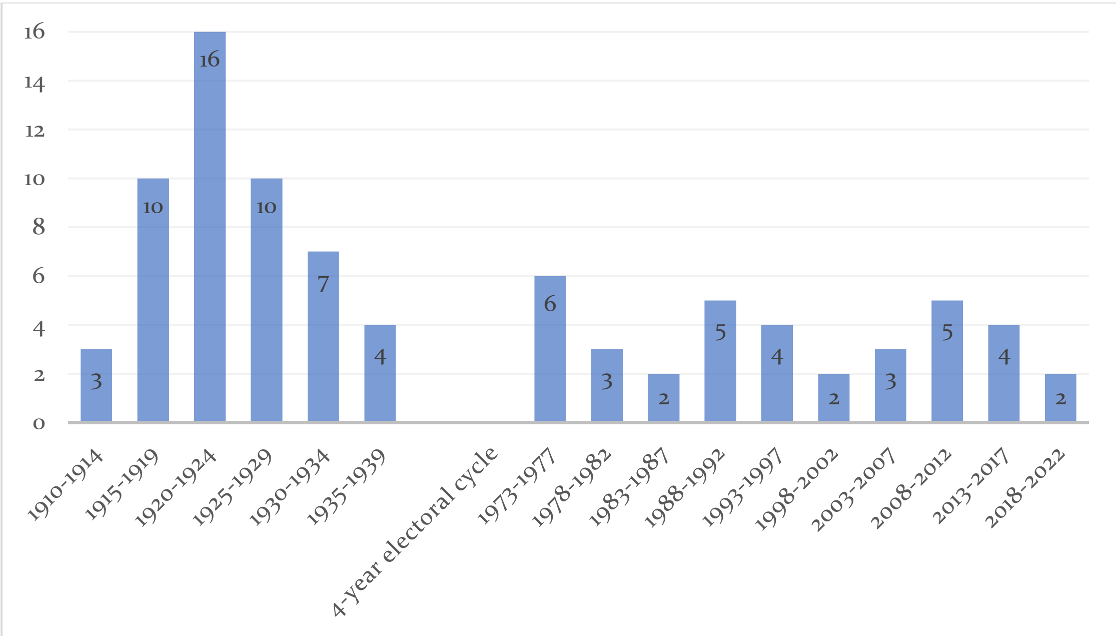
Figure 5.8: The Longstanding Features of Greek Political Economy or Path-Dependent Pathogens & the Immediate Response to the Crises of the 1930s and 2010s

Features of Greek Politics & Political Economy during the immediate outbreak of the Crisis	Time-Period	
	1930s	2010s
lack of domestic consensus building, political instability, resurfacing of polarisation & adversarialism	✓	✓
Electoral volatility	✓	✓
Resilience of Nepotism and Clientelism	✓	✓
Rise of challenger parties	✓	✓
Manifestations of legacies of *étatism*	✓	✓
Collapse of the democratic regime	✓	×
Imposition of externally prescribed *conditionality* programme	✓	✓
Massive layoffs in the public-sector	✓ result of purges	✓ Result of externally induce reforms
The cleavage between Public Administration & Government	✓	✓
High turnover of Administrative & Political Personnel	✓	✓
Reform capacity	×	×
Ownership over the externally prescribed reforms	×	×

Cultural Dualism & Adversarial Politics

The first parallel between the post-1929 and post-2008 crises was that against the backdrop of the crisis, the Greek political system engaged in a blame-shift strategy, attributing the country's economic predicament to the wrongdoings and "crimes" committed by their political rivals. Within the context of the zero-sum nature defining Greek politics (see **2.2.I**), the crises of the 1930s and 2010s intensified pre-existing cleavages within Greek politics and society. Instead of fostering consensus-building, the post-1929 and post-2008 crises exacerbated polarisation, adversarialism, and political instability (see **3.3.I**; **4.3.I**). **Figure 5.9** captures the number of government alterations from the early 20th century until 2022, revealing political instability in the 1930s and the 2010s.

Figure 5.9: Government Alterations per 4-year electoral cycle (1910 - 1939 & 1973 - 2022)



Adapted from: Hellenic Secretariat General for Legal and Parliamentary Affairs, (2022).

Between 1929 and 1936, Greece experienced ten alterations, including coalitions and caretaker governments (see **3.3.I**). Many governments could not remain in power for one fiscal year during this period. Frequent shifts in power (including regime changes) undermined the ability of governments to maintain stability and effectively address the challenges posed by the Great Depression. In turn, the political polarisation compounded the country's credibility deficit (see **1.2.II**) and Greece's reform capacity (see **5.3.V**). Similarly, when Greece found itself at the epicentre of the Eurozone Crisis between 2008 and 2018 (see **4.3.I**), Greece experienced nine government alterations, including coalition and caretaker governments. During this period, Greek governments struggled to cope with the economic and social challenges caused by the post-2008 crisis and the demands of the country's creditors and international partners.

This thesis illustrated the relevance and applicability of the path-dependent features characterising the opposing perspectives on the country's modernisation and international orientation and, inherently, the resilience of the cultural dualism (Diamandouros, 2013) during the crises of the 1930s and the 2010s. An indispensable aspect characterising the cultural dualism is the presence of an underdog culture (see **2.2.I**), which has been broadly understood as the tendency of a segment of Greek society to perceive itself as the victim of external forces, often manifesting in the form of conspiracy theories or a sense of national humiliation.

Both in the 1930s and the 2010s, challenger parties and factions instrumentalised the underdog culture within the political context, vowing to repudiate agreements made by previous governments and the country's foreign creditors. In addition to the predominance of partisanship and adversarialism, in the 1930s and the 2010s, the Greek political system shifted the blame to the country's foreign creditors. While in the 1930s, the target was the LNFC, and the International Financial Commission (IFC), in the 2010s, the targets were the Troika and Germany. While in the 1930s, the Great Depression strained the relationship between Greece and its foreign creditors, intensifying rivalry between Venizelos' Liberals and the Anti-Venizelist camp, in the 2010s, the Global Financial Crisis, combined with foreign intervention, exposed the adversarial nature of the Greek political system, with challenged parties such as SYRIZA, Golden Dawn, and ANEL capitalising on public discontent (see **4.2.II; 4.3.I**).

The path-dependent features characterising the zero-sum nature and adversarialism defining Greek politics shaped the country's response to crises. The lack of domestic consensus over reforms is exemplified by the hostility the BoG experienced in the 1930s, combined with efforts to reinstate note-issuing privileges to the National Bank of Greece (NBG) or merge the two (see **3.2.III; 3.3.III** . In the 2010s, high-profile attacks on independent institutions, such as the BoG and the Hellenic Statistical Authority, demonstrated the degree of polarisation and adversarialism (see **4.3.III**). The resurfacing of polarisation and adversarialism in the 1930s and 2010s (see **3.2.II; 4.2.I**) highlights the resilience of deeply entrenched political and social divisions, which inhibited the country's ability to respond effectively to challenges and achieve consensus on crucial matters. Persistent attacks on independent institutions exemplify the detrimental consequences of polarisation on Greece's ability to navigate adversity, while the lack of respect for the independence of the BoG undermined Greek credibility abroad. Both periods saw controversial government actions scrutinised by international lenders, foreign creditors, and European partners, emphasising the conditions that Greece was expected to comply with under the Geneva Protocol of 1928 and the Maastricht Treaty of 1992 (see **1.1.III**; **3.1.III**; **3.1.IV**; **4.2.III**; **4.3.I**).

In the 1930s, Greece experienced a tumultuous period marked by coups, countercoups, and political instability, manifesting the cultural dualism (see **3.3.I**; **3.3.V**). Notable events intensified divisions and led to the establishment of Metaxas' authoritarian regime in 1936. In the 2010s, the SYRIZA government's erratic approach to negotiations with creditors and its decision to hold a referendum nearly led to the country's expulsion from the European Monetary Union (EMU) (*Kathimerini*, 5/7/2015), further highlighting the consequences of polarisation and confrontational politics. The result of the "No" vote in the 2015 referendum (see **4.2.III; 4.3.I**) revealed deep-seated scepticism towards austerity measures imposed by the Troika, rooted in Greece's underdog culture.

In both periods, the lack of consensus and blame-shifting exacerbated divisions within Greek society and hindered the formation of a cohesive national narrative. Politicians proposed controversial and often unrealistic measures to address the crises (see **3.3.I; 3.3.III; 4.2.III; 4.3.I**). The Greek press played a significant role in reinforcing perceptions of humiliation by providing coverage of political scandals, corruption cases, and harsh austerity measures imposed by external actors (see **4.2.I; 4.2.III; 4.3.I; 4.3.V**).

Both periods witnessed mass mobilisation and political violence, which brought Greek city centres to a standstill, with the most violent incidents occurring on 1 May 1936, in Thessalonica and Day 1, 2011, and 5 May 2011, in Athens (see **3.3.I; 4.3.I**). Similarly to the high turnover of political and administrative personnel and assassination attempts targeting PM Venizelos, in the 1930s (*The Manchester Guardian*, 5/10/1930: 4; *NYT* 31/10/1930), in the 2010s, incidents of violence predominated the Greek-specific setting, such as the assassination of anti-fascist rapper Pavlos Fyssas by Golden Dawn (*NYT*, 12/2/2012; The *Guardian*, 18/9/2013) and the attempt to assassinate former PM Papademos in May 2017 (The *Guardian*, 25/5/2017). The rampant political violence and assassination attempts in the 1930s and the 2010s are emblematic of the cultural dualism that pervaded Greece during these periods. In the 1930s, Greece's political instability culminated in the rise of Metaxas' dictatorial regime; the dilemma between democracy and authoritarian rule haunted Greece in the post-war era, which degenerated into a civil war, and what was not adequately resolved until 1974. In contrast, the Eurozone crisis of the 2010s did not lead to the collapse of Greece's democratic regime or the dissolution of democratic institutions. The post-2008 period reveals an active civil society capable of fostering democratic values and practices despite challenging circumstances.

The end of the Eurozone Crisis IN 2018, coincided with the negotiations of the Prespa Agreement over the longstanding dispute with Greece's neighbour (*eKathimerini*, 20/6/2018), reignited political polarisation and exposed deep-seated divisions within Greek politics and society (Tsirbas and Sotiropoulos, 2017: 381). Conspiracy theories and adversarialism persisted (*Kathimerini*, 6/3/2019; Kouvelakis, 2019: 45), fuelling tensions. However, many viewed the Prespa Agreement as a plot to dismantle Greece or enable North Macedonia to annexe Greek territories (*Kathimerini*, 30/1/2018), ostensibly accusing that billionaire

George Soros was manipulating events and influencing governments (*Proto Thema*, 21/11/2018).

The COVID-19 pandemic exacerbated polarisation, with debates on health measures and vaccination policies dividing Greek society. Anti-vaccine movements gained momentum, with political figures aligning with these groups to benefit from their popularity. Greece exhibited one of the highest rates of vaccine hesitancy in Europe, driven by conspiracy theories and misinformation (ECDC, 2021). The enduring polarisation at the dawn of the 2020s mirrored patterns observed during the Eurozone crisis, demonstrating the resilience of political discord and fragmentation.

Vested Interests, Corruption, Clientelism & Patronage-led Politics

This thesis examined how vested interests and clientelism shaped Greece's response to the economic crises of the 1930s and the 2010s. Importantly, vested interests refer to groups that benefit from existing policies or structures, often using their influence to maintain these advantages. In contrast, clientelism involves the exchange of resources and favours between politicians and their supporters, fostering a patron-client relationship (see **2.2.II**). Moreover, I immerse perspectives from the empirical chapters on how the prevalence of political scandals, corruption, and maladministration during the 1930s and the 2010s impeded the country's capacity to generate adequate consensus and respond to the crises.

The economic crises of 1929 and 2008 led to resource scarcity and disrupted the distribution of rents and patron-client relationships. The post-1929 and post-2008 crises saw traditional parties lose touch with their core supporters. The decline in living standards weakened the legitimacy of the political status quo and fuelled instability. However, the emergence of smaller parties, such as the National Radical and Agrarian Parties, SYRIZA, and ANEL, was inextricably linked to their clientelistic promises, particularly in the public-sector and the armed forces.

Between 1932 and 1936, public servants increased significantly (FEK 281/1936). The large public-sector in the post-1932 was partly due to political patronage. Venizelos' Liberal Party and the Popular Party led by Panayis Tsaldares competed for power by offering jobs and engaging in “vote-buying" and sought to secure the loyalty of their supporters by providing them with stable jobs (*Eleftherotypia*, 18/2/1932; *Kathimerini*, 28/5/1932*; Eleftheros Typos*, 25/3/1933). During this period, there was an increase in purges of the employees appointed by political rivals, further highlighting the importance of patronage in maintaining power (see **3.3.III; 3.3.IV**).

In the 2010s, clientelism endured despite the severe economic crisis and the Troika’s emphasis on implementing austerity, political parties like SYRIZA, ANEL, and Golden Dawn gained popularity by capitalising on public discontent and making clientelistic promises to potential supporters, such as public-sector employees, pensioners, and the unions (*Avgi*, 06/05/2012). Systemic parties such as ND and PASOK delayed many reforms to avoid a clash or protect vested interests, such as the trade unions and other important groups, and engaged in “emergency” and non-permanent appointments (see **4.3.II; 4.3.III**). This development is consistent with Mavrogordatos' (2013) findings, arguing that clientelism remained influential in Greece's political landscape, with patronage networks experiencing serious adjustment but enduring both crises' immediate aftermath (see **4.3.III**).

Clientelism also involved relationships between Greek political figures and foreign corporations operating in the country and the award of public works contracts. In the 1930s, vested interests were evident in scandals involving exclusive rights for infrastructure or public works projects (*Kathimerini*, 15/6/1935: 1), as well as payments made to Greek politicians by Ulen & Co. (*Kathimerini*, 15/06/1935) and Power & Co. (*Eleftheros Typos*, 10/8/1934) (see **3.3.II**). In the 2010s, the Siemens scandal exposed a network of bribes and kickbacks (*Der Spiegel*, 29/10/2010), while the Greek Parliament's investigation in 2011 revealed corruption in numerous arms deals (Greek Parliament, 2011). The Novartis scandal in 2018 involved allegations of bribery and corruption against the Swiss pharmaceutical company (*The Guardian*, 6/2/2018; *Kathimerini*, 7/2/2018). Importantly, critics have argued that these revelations were politically motivated and aimed at discrediting the opposition and various enemies ahead of the 2019 general elections (*Kathimerini*, 19/2/2018).

Another important feature inextricably linked to the widespread perceptions of corruption and the resilience of clientelism was the political scandals and corruption, particularly those linked to maladministration, eroded trust in government, which in turn, hindered the implementation of necessary reforms and measures to address the crises as citizens became increasingly sceptical of their leaders' intentions and capabilities (*Kathimerini*, 29/06/2011). In the 1930s, the combination of the quinine scandal of 1931, the country's default, and other maladministration issues contributed to the Liberal government’s defeat in the elections of 1933.

In the post-2008 period, ND’s defeat in the elections of 2009 was attributed to several reasons. In addition to its poor management of the crisis, the Karamanlis government faced criticism for the Siemens and Vatopaidi scandals. Furthermore, the shooting of Alexis Grigoropoulos by the police, as well as the wildfires of 2009, further exacerbated the public disgruntlement and disapproval of the centre-right government. In 2019, perceptions of corruption combined with its ineffective response to the tragic fires in Mati in 2018 culminated in the defeat of Tsipras’ SYRIZA (*Kathimerini*, 29/06/2011; 24/7/2018). Therefore, in the immediate outbreak of the post-1929 and the post-2008 crises, the shortcomings of the governments in addressing the economic shock made them appear complicit and complacent, further eroding public trust in their ability to manage the country's challenges effectively. This hostility and mistrustful environment fuelled social upheaval and unrest, with protests and demonstrations becoming increasingly common during these periods (Kathimerini, 29/06/2011).

The underlying argument is that the erosion of trust in government due to political scandals and corruption cases hindered the implementation of necessary reforms and measures to address the crises as citizens became increasingly sceptical of their leaders' intentions and capabilities (*Kathimerini*, 29/6/2011). Another important insight emerging from this thesis is that the extensive coverage these scandals received by the press of the day diverted attention away from addressing pressing economic and social challenges, leading to a delayed and less effective response to the crises. Additionally, I have argued that the extensive media coverage of political scandals and corruption cases further (**see 3.3.II**; **4.3.II**).

Greek Étatism

State interference in the economy has been a perennial feature of the Greek political economy, with deep historical roots that have shaped the development of the country's institutions, policies, and overall economic performance. The deeply entrenched legacies of étatism can be traced back to the formation of the Greek state (see **2.2.III**). Although the nature and extent of state interferences have evolved in response to changing circumstances and priorities, the resilience of étatism, or the active intervention of the state in economic affairs, has been a persistent challenge for Greece, not only in terms of its economic growth, but also in its relations with international creditors, lenders, and international organisations. This analysis immerses the perspectives emerging from the role of state interference was manifested, with particular attention to how it shaped the country's relations with international creditors and lenders. This analysis sheds light on the enduring challenges and complexities of state interference in the Greek political economy, exploring how the path-dependent legacies of étatism in Greece were manifested during the crises of the 1930s and the 2010s, highlighting how state interference hindered the implementation of numerous necessary reforms.

First, it is important to stress that there is a fundamental difference characterising the role of state interference in the periods examined. During the 1930s, the global response to the crisis was characterised by an étatist or dirigiste model, highlighting the importance of state control over the economy and the pursuit of autarky. This approach aligned with the global shift towards the imposition of protectionist restrictions on the flow of capital and trade, with the emergence of dictatorial regimes (i.e., Nazi Germany and Fascist Italy), which sought to consolidate power through state intervention in various aspects of economic life (see **3.2.III**; **3.3.III**; **3.3.V**). In contrast, the response to the post-2008 crisis was marked by emphasising reducing public interference, the importance of the market economy, liberalisation, and neoliberal policies more broadly (see **1.3.III**). The state's role was primarily to implement structural reforms and austerity measures demanded by international creditors and lenders to restore fiscal stability and investor confidence (see **4.2.III**; **4.3.III**).

In the post-1929 and post-2008 crises, there were numerous manifestations of Greece's étatist legacies. Another parallel between the aftershocks of the post-1929 and post-2010 crises pertains to the country's sluggish exports and continued external dependence, which generated perceptions of state failure and the state's inability to manage the crises effectively. In the 1930s, the Liberal and Popular Parties sought to re-instate the NBG with note-issuing privileges, and the proposals to merge the NBG and the BoG would have marked a violation of the Geneva Protocol, illustrating the state's desire to maintain control over the country's monetary system (*Kathimerini*, 16/02/1932). In addition to generating tensions with the country's international creditors, such as the League of Nations, the widening of the Greek *credibility deficit* was captured in the words of Finlayson from the LNFC, who said that there would be "trouble with the old man" (IATE $A_3\Sigma_1Y_1\Phi_{24}/2$).

Despite adopting an étatist or dirigiste model of autarky, which aimed to increase self-reliance and reduce external dependence, the Greek economy struggled with weak exports, which amounted to approximately 9% of GDP in 1935 (*Kathimerini*, 27/07/1935). This outcome can be attributed to the limited success of protectionist measures, which failed to significantly increase domestic production or foster the development of competitive industries (*Kathimerini*, 22/04/1933). This period also saw the enforcement of censorship laws by Venizelos' Liberal Government, which led to the temporary closure of 33 newspapers (*Kathimerini*, 10/10/1932). This action not only highlighted the state's involvement in controlling the flow of information but also fuelled public dissatisfaction and contributed to the perceptions of state failure (see **3.2.II**; **3.2.III**; **3.3.I**; **3.3.III**; **3.3.V**).

The legacies of étatism, combined with the emergence of the alternatives presented by National Socialism in Nazi Germany and Fascism in Italy, characterised by state intervention and control over the economy, combined with the rampant protectionism was captured in the substitution strategy adopted in the 1930s, which sought to reduce dependence on imports and promote domestic production through state intervention. This strategy was partly influenced by similar policies in other countries, as the global economic climate of the time necessitated increased state involvement in the economy. Consequently, the crisis of the 1930s marked a turning point for state intervention in Greece, with the state playing a more prominent role in shaping the country's economic trajectory.

Throughout the post-2008 period, the privatisation process in Greece has experienced notable shortcomings, which can be linked to the persistence of étatist legacies and the sway of vested interests. For example, by 2015, privatisation proceeds amounted to a mere €3.5 billion, significantly short of the ambitious €50 billion target (*Proto Thema*, 23/02/2014; *Kathimerini*, 01/08/2015). This interplay between vested interests and étatist legacies created an environment where privatisation faced numerous obstacles and delays, despite the pressing need for structural reforms and fiscal consolidation. While there have been some efforts to privatise state assets, these have often been characterised as symbolic rather than transformative, with critics arguing that none of the privatisations completed had a considerable impact on the overall economy (Pagoulatos, 2019).

Another example illustrating the resilience of étatist legacies was manifested in the controversial promises of parties in the opposition, combined with the lack of respect towards independent institutions and the dismissal of key officials, which impeded the implementation of essential reforms and exacerbated the *credibility* deficit. For instance, in the 2010s, SYRIZA recurrently proposed to place Greek banking system under the government's direct control (*in.gr*, 13/11/2008; *efsyn.gr*, 22/7/2015; *Lifo.gr*, 3/8/2017) and attempted to "renationalise" the BoG (*Protothema.gr*, 2/7/2015), a step which would have terminated the country's participation in the European System of Central Banks (ESCB), and EMU (INT-7). The lack of respect towards independent institutions was also manifested in PM Samaras' decision to fire the General Secretary for Public Revenues, Haris Theocharis, who was tasked with fighting tax evasion and increasing tax revenue collection (*Kathimerini*, 19/6/2014). The firing raised concerns about the government's commitment to the reform process and suggested a reluctance to relinquish control over the country's fiscal management. Additionally, the SYRIZA government's prosecution of Andreas Georgiou, the former director of ELSTAT, undermined Greek credibility in the eyes of international observers, especially the *Troika*.

The persistence of étatist legacies in Greece and the limited progress in privatisation in the period after 2018 is illustrated in the Hellenic Republic Asset Development Fund (HRADF), whose report in 2020 revealed that only €8.3 billion had been raised from privatisation efforts since the beginning of the bailout programmes in 2010, significantly lower than the original target of €50 billion set by the country's creditors (HRADF, 2020). This shortfall reflects the slow progress and challenges faced in implementing privatisation policies. Furthermore, a study by the BoG (2019) indicated that Greece's export performance had not significantly improved, with the export-to-GDP ratio increasing from 19.2% in 2009 to 25.7% in 2018.

The country's persistent external dependence remained a critical issue, as evident in the high trade deficit, which stood at €15.6 billion in 2018 (BoG, 2019) and the reliance on external financing, particularly from European institutions and the International Monetary Fund (*Kathimerini*, 02/05/2010). This thesis highlighted the country's continued dependence on a few traditional sectors, such as tourism and shipping, illustrating that the Greek state maintains significant ownership stake and influence in strategic sectors, such as telecommunications, energy, and banking, at the time of writing.

The sluggish pace of privatisation can be partly attributed to the influence of vested interests, such as political actors, powerful business groups, and other organised interests, to preserve control and influence over valuable state assets and impede the implementation of reforms. In the post-2018 period, étatist legacies continue to shape the state's approach to privatisation. In addition to generally being reluctant to implement serious de-nationalisations (Makrydemetres *et al.,* 2018), the enduring legacies of étatism are accurately captured in education; specifically, article 16 of the Greek Constitution, concerning the monopoly of public universities, hostility towards the private sector in higher and the inefficiencies recognising academic and professional qualifications have endured the crisis of the 2010s.

This thesis demonstrated that the path-dependent legacies of étatism, or state intervention (see **2.2.III**), significantly shaped Greece's response to the economic crisis of the 1930s and the 2010s, arguing that the post-1929 crisis did trigger a *turning point* for the state's role in Greek economic policy, reinforcing the étatist legacies. This shift in policy orientation can be characterised as *third-order change* (Hall, 1993: 280), as it involved a significant departure from the previous *laissez-faire* paradigm, which predominated the Greek-specific setting. As far as the 2010s are concerned, this thesis argues that while the long-term effects of the crisis and foreign intervention are still being shaped, the externally prescribed *conditionalities* marked a *turning point* for foreign intervention in domestic affairs, or fiscal sovereignty, which will be more analytically reviewed in the assessment of the country's reform capacity.

Public Administration (PA)

The severe economic shocks Greece experienced in the 1930s and the 2010s led to heightened polarisation and adversarialism within the PA and the political system. The post-1929 and post-2008 economic downturns exposed and intensified the existing issues within the administrative and policymaking system, undermining the country's capacity to respond effectively to the crises. The persistence of path-dependent practices, bureaucratic pathologies, and horizontal politicisation throughout both periods underscores the enduring challenges and constraints facing the Greek PA during times of crisis (see **2.2.II**; **2.2.IV**). The demands of foreign creditors, combined with the internal turmoil, resulted in a high turnover of administrative personnel, further exacerbating the instability in public administrative apparatuses. The empirical chapters focusing on the 1930s and the 2010s have illustrated that the historical patterns of bureaucratic clientelism, polarisation, and widespread perceptions of corruption showed impressive resilience, despite the differing circumstances and external pressures.

In the prelude to the 1930s crisis, Greece's PA was marred by a high degree of political patronage, partisanship, and bureaucracy, resulting in excessive civil servants -especially in the armed forces. This, coupled with the polarisation and adversarialism within the political system, significantly impacted the Greek PA, inhibiting the country's capacity to respond effectively to the economic challenges triggered by the outbreak of the post-1929 Great Depression (see **3.3.IV**). Similarly, before the Eurozone Crisis of the 2010s, the Greek PA grappled with continued patronage, bureaucracy, and politicisation. The country's entry into the Eurozone and the subsequent boom in public spending further exposed the weaknesses of its administrative system, as the government failed to implement the necessary reforms to enhance the PA's efficiency, transparency, and accountability. As the 2010s crisis unfolded, the Greek PA was once again confronted with the consequences of its dysfunction (see **4.3.IV**).

In the 1930s, Greece's foreign creditors urged the Venizelos and Tsaldares governments to dismiss civil servants and reduce salaries, but neither government conceded to these demands (see **3.3.IV**). After the default of 1932, the Liberal Government targeted those appointed by their rivals (*Akropolis*, 11/11/1932: 1; *Kathimerini,* 1/2/1933: 1), a strategy later replicated by Anti-Venizelists such as Tsaldares and Metaxas revealing how the path-dependent practices of political patronage and partisanship influenced Greece's response to the crisis.

During the 2010s, external pressure from Greece's foreign lenders, international creditors, and European partners played a more crucial role in shaping the government's response, something captured in the conditionalities stipulated in the three adjustment programmes. In addition to the PA's increasing role in the MoUs, layoffs in the PA and the broader public-sector were primarily due to concessions to external pressure rather than unilateral decisions by national governments. The persistence of bureaucratic pathologies and the patronage-based appointments during this period suggests that path-dependent practices of clientelism and vested interests continued to constrain policy choices and reforms. This dissertation argued that at the time of writing, the post-2008 crisis is characterised by *second-order change*, as important structural reforms were implemented, and new policy instruments were introduced, such as the General Secretariat for Public Revenue and the unification of public-sector payroll and expenditure under one unit. However, the path-dependent legacies of bureaucratic pathologies and politicisation of the Greek PA exhibited resilience in the 2010s.

Engaging with Mahoney and Thelen's concepts of layering, drift, conversion, and displacement provides further analytical insights into the Greek PA's role during both crises. While in the 1930s, the Greek government's response to the crisis largely involved conversion and layering. While conversion was manifested via the Liberal and Popular government's decision to redirect existing institutions, such as implementing cuts and layoffs; on the other, the Liberal government established new institutions, such as the Council of Senior Economic Advisors and IKA. During the 2010s, layering played a more prominent role, as new institutions and rules were introduced alongside existing ones in response to external pressures (see **3.3.IV**; **4.4.IV**).

Reform Capacity

Greece's immediate response to the post-1929 and post-2008 crises was hindered by the country's weak reform capacity (see **2.2.V**; **3.3.V**; **4.3.V**). The empirical chapters revealed that in both periods, endogenous and exogenous factors impeded the country's reform capacity, such as the country's excessive external dependence on external sources for capital and essential goods and the resurfacing of political polarisation and instability undermined the Greek reform capacity.

First, I stressed that the country's long-standing issue of the *original sin* and the accumulation of onerous debt overhangs in the early 20th century and the post-1974 period (see **3.1.I**; **3.1.II**; **4.1.I**; **4.1.III**; **5.2.I**) made Greece more vulnerable to abrupt halts in the flow of international capital and investments, such as the post-1929 and post-2008 crises.

Second, the fixed exchange rate systems Greece adopted in both periods constrained Greece's capacity to respond to the economic crises of the 1930s and the 2010s. While after the signing of the Geneva Protocol of 1928, the drachma was pegged to the pound; in 2002, Greece adopted the euro (see **5.2.II**). In both cases, the deflationary pressures of the monetary regimes Greece adopted, the only way to address the economic shocks of the 1930s and the 2010s was via internal devaluation or austerity. While in the 1930s, this strategy proved futile and led to the country's abandonment of the GES, encompassed the implementation of tariffs on imported goods, in the 2010s, the fiscal and monetary tightening had a detrimental effect on the real economy.

Third, during the 1930s and the 2010s, the severe effects of the crises combined with the foreign intervention in domestic affairs heightened electoral volatility, which widened Greece's credibility deficit with its foreign creditors, a phenomenon referred to as the *political economy doom loop*. The punitive discourse adopted by Greece's foreign creditors in both periods undermined the Greek authorities' capacity to exercise ownership over the externally imposed reforms. The 1930s saw the refusal of Tsaldares' minority government to accept the foreign-prescribed conditionalities, which threatened the implementation of the Varvaressos Agreement. In comparison, in the 2010s, the political opposition to the externally-prescribed conditionalities of the adjustment programmes eroded Greek credibility in the eyes of international creditors and European partners. In 2015, the SYRIZA-ANEL uncompromising stance towards the foreign-prescribed reforms led to a rupture with the Troika and Greece's European partners and reignited speculation about Greece's potential exit from the Economic and Monetary Union (EMU).

Fourth, domestic political pressures also shaped the Greek government's approach to the reforms, as they determined the concessions that successive governments were willing to undertake (see **3.3.I**; **4.3.I**). The lack of consensus in the political system and the rise of challenger parties hindered the adoption of externally-prescribed reforms. In the 1930s, the political apparatus refused to exercise ownership over the conditionalities of the Geneva Protocol, such as the BoG's note-issuing monopoly. In the 2010s, Greece's international rescue packages were largely perceived as a foreign-imposed agenda rather than a solution to the country's economic problems. The resurfacing of polarisation and widespread opposition to the reforms and the Troika overshadowed the potential "window of opportunity" created by the post-2008 crisis. In addition to the revisions of the Memoranda of

Understanding (MoUs) and the implementation delays, despite the high rate of implementation of reforms shown by Moury *et al.* (2021), what ultimately makes the Greek experience of the post-2008 shock "a crisis without a solution" is the fact that in public opinion polls show that the crisis was still deciphered as a "foreign plot to subjugate the Greeks" (Koutropoulos, 2020).

Greece's post-crisis economic recovery has also been slower than other Eurozone countries that received financial assistance, such as Portugal. In 2019, Greece's real GDP growth rate was 1.9% compared to Portugal's 2.8% (Eurostat, 2021). Moreover, the COVID-19 pandemic led to a GDP decline of 8.2% in 2020 (Eurostat, 2021), exacerbating the challenge of achieving robust economic growth. Greece's unemployment rate remained high at 16.3% in 2020, significantly reduced from its peak of 27.5% in 2013 but still much higher than other countries that faced crises, such as Spain, which had an unemployment rate of 15.5% in the same year (Eurostat, 2021).

The enduring influence of the conditionalities attached to Greece's economic adjustment programmes in the 2010s is a key aspect of the post-crisis period, drawing parallels with the country's historical experience with the International Financial Commission (IFC) from the late 19th century until 1978. The IFC imposed a series of conditions and obligations on Greece throughout its tenure, which provide an insightful comparison with the present situation and the challenges Greece must confront in the coming years (see **3.1.I; 3.3.V**). Until 1978, Greece had to comply with various conditions, including fiscal discipline and revenue collection, and the IFC exerted significant influence on the country's finances and control over the allocation of resources (see **3.1.III**). One striking example of the IFC's stringent requirements is that Greece was still expected to make payments even during the Nazi occupation in the Second World War, which added to the country's financial burden. After the war, Greece obtained assistance from the United States through the Marshall Plan, which provided much-needed aid for reconstruction and development. This illustrates the Greek state's enduring foreign dependence, combined with the onerous demands of the IFC, which contributed to the country's prolonged struggle to regain financial stability and independence, setting the stage for future challenges.

In the post-2018 period, within the context of the post-bailout conditionality, Greece committed to achieving quantitative targets such as a primary budget surplus (excluding interest payments) of 3.5% of GDP until 2022 and an average primary surplus of 2.2% of GDP from 2023 to 2060 (European Commission, 2018: 4). Achieving these surplus targets is crucial for reducing Greece's high public debt, which exceeded 200% of GDP in 2020 (Eurostat, 2021). Additionally, the post-2018 period encompasses enhanced surveillance and post-programme monitoring by the European Commission. The post-2018 period presents Greece with the challenge of maintaining fiscal discipline while fostering economic growth and reducing unemployment.

The following section will examine the weaknesses and limitations of this thesis, shedding light on areas that require further exploration and analysis, discussed in **5.4**, which broaches the future research contours emerging from the systematic historical comparative analysis of the two crises for the study of Greek Political Economy and the broader investigation of economic crises such as international sudden stops.

5.3.II Weaknesses & Limitations

Unsurprisingly this PhD thesis has certain limitations and weaknesses that warrant careful consideration for a comprehensive understanding of this thesis' findings.

First, the first case study of this thesis extensively depends on quantitative data from the 1920s and 1930s, which is derived from primary sources characterised by substantial discrepancies (Kostelenos *et al.,* 2007; Maddison, 2009; Ivanov, 2012; Lazaretou, 2014; Psalidopoulos, 2019). Moreover, the reliability of statistical data concerning the Greek economy before 1958 is generally dubious (BoG, 2014: 9). To address this limitation, future research can seek to corroborate the data with additional sources (Bhaskar, 2014: 34), identify trends through cross-validation (King, Keohane and Verba, 1994: 92), and employ statistical methods that account for potential discrepancies in the data (Schrodt, 2014: 107).

Second, the single-country case study design (George and Bennett, 2005: 67) focusing on Greece's post-1929 Great Depression and the post-2008 Global Financial Crisis limits the generalisability of this thesis' findings. Although I have attempted to incorporate comparative evidence throughout this thesis' chapters, my specific focus on Greece and these two periods may not apply to other cases from different periods and geographical locations, particularly within Southeastern and South-East Europe. Conducting further cross-case analyses to identify common patterns and trends across cases (Ragin, 2008: 182) can provide valuable insights into regional economic dynamics and crisis management strategies to fill the inherent gap left by the focus on large-N case studies.

Third, the separation of the two crises by a considerable time gap represents a potential weakness, as the 1930s and the 2010s are two radically different periods and shocks (Reinhart and Rogoff, 2009: 74; Eichengreen, 2015: 21). This may make it challenging to draw direct comparisons between the two crises, considering the significant changes in political, social, and economic contexts. This thesis has sought to acknowledge and account for these contextual differences while comparing the crises, ensuring that the uniqueness of each event is not overlooked.

Fourth, while Historical Institutionalism (HI) and path-dependence theory offer valuable analytical perspectives, they may not encompass all pertinent aspects of the research subject. Future research can explore alternative theoretical frameworks, such as political economy (Bates, 2008: 3), social network analysis (Wasserman and Faust, 1994: 19), or complexity theory (Mitchell, 2009: 27), to provide complementary insights and a more comprehensive understanding of the phenomena under investigation.

Fifth, the politically sensitive nature of the research area introduces potential biases in the data collected from semi-structured 'elite' interviews. To mitigate this issue, future research can employ methodological triangulation (Denzin, 2017: 29), combining different data collection techniques (e.g., surveys, archival research, and content analysis) to validate findings and ensure a more balanced representation of the phenomena being studied (Yin, 2014: 53).

Sixth, the methodological approach of CHA presents its own set of limitations. This thesis has employed mixed methods to address these challenges, integrating quantitative and qualitative data (Creswell, 2014: 14) while explicitly accounting for the complexities and nuances of case selection and comparison (Mahoney and Rueschemeyer, 2003: 3).

The next section engages with future research contours emerging from the systematic historical comparative analysis of the two crises for studying Greek Political Economy and the broader investigation of economic crises such as international sudden stops.

5.4 Future Research Avenues

This section delineates several areas for future investigations in Greek Political Economy and Economic History scholarship, connecting them with the broader research themes emerging from this dissertation.

A "pilot case" is broadly understood as a precursor to a larger, more comprehensive study (Gerring, 2004: 349; Yin 2014: 47). By providing some insights and adopting a robust research design and methodological approach, pilot cases can serve as a starting point for subsequent studies to emulate and explore the "contingent generalisations" identified (George and Bennett, 2005: 84; Creswell, 2013: 121). This dissertation provides a template or *pilot case* for future scholars to undertake interdisciplinary research to develop compelling historical and contemporary comparisons without overlooking the role of domestic political economy. I argue that more research is needed on Greece's experiences with lending boom-and-bust cycles, sudden stops, and debt crises, also known as trifecta episodes (Gourinchas *et al.,* 2017). The adoption of the CHA methodological approach and the HI theoretical framework can pave the ground for the establishment of the Historical Political Economy approach, or HPE (Jenkins and Rubin [eds], 2023), "highlight[ing] political causes or consequences of historical issues" (Jenkins and Rubin, 2022), enables researchers to refine their research questions, data collection methods, and analyses.

First, this dissertation hopes to offer a *pilot case* for future research in the Greek-specific setting, underscoring the significance of multidisciplinary approaches and immersing insights from economic history and political economy. By adopting this thesis' theoretical and conceptual optics, researchers could focus on understanding long-term patterns and processes that have shaped the Greek political economy and formulating structured comparisons of the country's experiences with international *sudden stops*, financial crises, and sovereign defaults to comprehend the country's historicity and trajectory better and identify continuities and changes. For instance, future research might concentrate on the Long Depression of the 1890s, examining its transmission mechanisms and the ensuing implications for the Greek economy. This could be paired with a study of the political economy surrounding the Greek default of 1893, thereby identifying continuities and changes. In addition to emphasising the robustness of Historical Institutionalism as a theoretical framework for probing the relevance of path-dependence theory in the Greek situation, this dissertation encourages scholars to systematically utilise the Historical Institutionalism framework, in conjunction with Comparative Historical Analysis (CHA), to determine the factors that shaped Greece's response to economic disruptions.

Second, the empirically grounded, historically driven and theoretically-informed analyses approach this thesis adopted to examine Greece's experience of the post-1929 Great Depression, and the post-2008 Eurozone crisis can be replicated for other single-country historical comparisons in the peripheral economies of South-eastern Europe, such as Turkey, Serbia, Bulgaria, Romania and Albania, suffering from the original sin (see **1.3.II**). The South-Eastern European Monetary and Economic Statistics database offers a comprehensive collection of monetary and economic statistics in the South-Eastern European countries from the 19th century to World War II. Scholars in various fields, including economic history and political economy, can use this dataset to explore historical questions and conduct comparative analyses in conjunction with the conceptual innovations of this thesis – conditionality, credibility, and external dependence – to construct structured historical-comparative case studies focusing on the impact of global financial shocks and sudden stops, such as the 1930s and the 2010s.

Third, further research is required to focus on countries with a high frequency of sovereign defaults, also known as serial defaulters (Kohlscheen, 2007: 45), such as Argentina, Brazil, Ecuador, Mexico, and Turkey. Formulating structured qualitative *single-* or *cross-country* comparisons of the serial defaulters during the 1930s and the 2010s would produce important insights into the underlying features adversely affecting these countries, striking a delicate balance between political and economic antecedents.

Fourth, Building on the work of Psalidopoulos (1989: 23) on the impact of the Great Crash on Greek economic thought, Brunnermeier et al. (2016: 78) on the contesting schools of thought surrounding the Economic and Monetary Union (EMU) and the Eurozone crisis, and Demetriades' (2019: 12) insights into Central Bank Independence (CBI), additional research could adopt an Ideational Institutionalist perspective (Hay, 2001; Blyth, 2002; Schmidt, 2008; Matthijs, 2008). This perspective would highlight the importance of economic ideas during periods of economic uncertainty and their role in shaping policy responses. Future research could delve into the role of economic ideas in defining the "canon of the times", with a specific focus on the post-1929 Great Depression and the post-2010 Global Financial Crisis.

This approach could also examine how prior experiences with economic crises mould policy debates and responses, thereby securing a more robust understanding of the role of ideas in navigating crises. In conclusion, this dissertation serves as a theoretical and methodological *pilot case* for researchers, providing a robust framework for understanding the complex interaction between economic history and political economy. This approach, when applied to other contexts, promises to yield insightful and nuanced understandings of economic and political trajectories, thereby enriching the broader scholarly discourse on these topics.

Appendix

Figure 1: The Growth of Public Debt (1829-1932)

The Growth of Public Debt (1829-1932)

Year	Foreign Debt (mill. gold francs)	Domestic Debt (mill. drachmae)
1821-1893	699.8	-
1894-1922	1164.5	5856.2
1923-1932	947.9	5225.1

Adapted from: Angelopoulos (1937); Mazower (1987).

Figure 2: Population in Greece (1907-1928)

Surface Area & Population in Greece

Year	Surface Area	Population	Per km2
1907	63,211	2,631,952	41,64
1920	150,833	5,531,474	36,67
1921	150,833	5,604,000	37,25
1922	130,199	5,913,000	45,65
1923	130,199	6,077,000	46,67
1928	130,199	6,204,684	47,66

Adapted from: General Statistical Agency (1930: 23-4).

1. After the Treaty of Sevres (1920).
2. After the Treaty of Lausanne (1923)

Figure 3: Greek Governments & Greek Leaders (Prime Ministers); 1909-1932

Monarchy

Aug. 8, 1909 – Jan. 1, 1910 (K. Mavromichalis)
Jan. 18 – Oct. 6, 1910 (S. Dragoumes)
Oct. 6, 1910 – Feb. 25, 1915 (E. Venizelos)
Feb. 25 – Aug. 10, 1915 (D. Gounares)
Aug. 10 – Sept. 24, 1915 (E. Venizelos)
Sept. 24 – Oct. 10, 1915 (A. Zaimis)
Oct. 25, 1915 – Jun. 9, 1916 (S. Skouloudes)
Sept. 6 – Sept. 9, 1916 (A. Zaimis)
Sept. 9 – Sept. 27, 1916 (N. Kalogeropoulos)
Sept. 27, 1916 – Apr. 21, 1917 (S. Lampros)
Apr. 21 – Jun. 14, 1917 (A. Zaimis)
Jun. 14, 1917 – Nov. 4, 1920 (E. Venizelos)
Nov. 11, 1920 – Jan. 4, 1921 (D. Ralles)
Jan. 24 – Jan. 24, 1921 (N. Kalogeropoulos)
Mar. 26, 1921 – Mar. 2, 1922;
Mar. 2 – May 3, 1922 (Colonel D. Gounares)
May 3 – May 9, 1922 (N. Stratos)
May 9 – Aug. 28, 1922 (P. Protopapadakis)
Aug. 28 – Sept. 16, 1922 (N. Tryandafyllakos)

Sept. 16/17, 1922 (A. Charalambes)
Sept. 17 – Nov. 14, 1922 (S. Krokydas)
Nov. 14, 1922 – Jan. 11, 1924 (Colonel S. Gonatas)
Jan. 11, 1924 – Feb. 6, 1924 (E. Venizelos)
Feb. 6, 1924 – March 12, 1924 (G. Kafandharis)

Republic

March 12, 1924 – July 25, 1924 (A. Papanastasiou)
July 25, 1924 – Oct. 7, 1924 (Th. Sofoulis)
Oct. 7, 1924 – June 26, 1925 (A. Michalakopoulos)
June 26, 1925 – July 19, 1926 (General Th. Pangalos)
July 19, 1926 – Aug. 26, 1926 (A. Eftachsias)
Aug. 26, 1926 – Dec. 4, 1926 (G. Kondylis)
Dec. 4 – Aug. 17, 1926; Aug. 17, 1926 – Feb. 8 1927; Feb. 8 – Jul. 4 1928 (A. Zaimis)
July 4, 1928 – Jun. 7, 1929; Jun. 7 - May 26, 1932 (E. Venizelos)
May 26, 1932 – June 5, 1932 (A. Papanastassiou)
Jun. 5 – Apr. 11, 1932 (E. Venizelos)

Adapted from: Hellenic Secretariat General for Legal and Parliamentary Affairs, (2022).

Figure 4: Public Finances (1911-1937)

Public Finances

Year	Total Revenue (i)	Total Expenditure (ii)	Official Deficit/ Surplus (iii)	Ordinary Revenue (iv)	Implicit Deficit/ Surplus (v)	Public Debt (vi)	Public Debt Service (vii)	PDS /OR (%) (viii)
1911	235	181	54	138	-43	n.a.	n.a.	n.a.
1912	172	208	-36	127	-64	1172	57	45
1913	300	262	38	122	-140	1217	n.a.	n.a.
1914	559	486	73	221	-265	1383	n.a.	n.a.
1915	438	386	52	232	-154	n.a.	n.a.	n.a.
1916	314	238	76	230	-8	n.a.	n.a.	n.a.
1917	443	317	126	263	-54	n.a.	n.a.	n.a.
1918/19	1251	1446	-195	288	-1158	2432	n.a.	n.a.
1919/20	1129	1354	-225	562	-792	2434	n.a.	n.a.
1920/21	1654	1683	-29	924	-759	4553	n.a.	n.a.
1921/22	1623	2258	-635	1287	-971	11469	n.a.	n.a.
1922/23	5158	3383	1775	2666	-717	12594	n.a.	n.a.
1923/24	3992	4951	-959	3299	-1652	18766	1023	31
1924/25	5757	5510	247	4685	-825	29482	1302	28
1925/26	8066	6843	1223	5668	-1275	35842	1579	28
1926/27	9440	8690	750	7023	-1667	38029	2925	42
1927/28	8997	7771	1225	8807	1036	36973	2260	26

1928/29	10552	9450	1094	9058	-392	38038	3688	41
1929/30	18730	18358	372	9242	(-9116)	38602	3329	36
1930/31	11394	11176	218	9013	-2163	41310	3300	37
1931/32	11077	11099	-22	8552	-2547	43039	3027	35
1932/33	9144	9117	27	7779	-1338	43161	1898	24
1933/34	8476	7706	770	8147	441	42687	1320	16
1934/35	9237	8746	491	9061	315	44985	1484	16
1935/36	10647	10049	598	10232	183	47363	1810	18
1936/37	13214	12683	531	10130	-2553	49630	1859	18

Notes: All figures in millions of drachmae (1987).

Col. (iii) = Col. (i) – Col. (ii) [total revenues fewer total expenditures].

Col. (v) = Col. (iv) – Col. (ii) [ordinary revenues fewer total expenditures].

Col. (viii) = Vol. (vii) / Vol. (iv) (%).

Adapted from: Mazower (1987: 365); Col. (i) and (ii): Annuaire Statistique 1930 (1931); 1937 (1938); 1938 (1939); Col. (iv): 1911-1918: Tsouderos (1920: 67-89); 1919-1922: Kostis (1984: 113); 1923/24-1936/37: Angelopoulos (1937: 54, 206-7); Col. (vi): 1912-1914: Tsouderos (1920: 76-7); 1918-36: League of Nations (1948: 71); Col. (vii): Angelopoulos (1937: 54, 206-7).

Figure 5.: Exchange Rates & Prices (1914=100)

Exchange Rates and Prices

Year	£: drachmae (Athens)	$: drachmae (Athens)	Swiss Franc drachmae (Athens)	Wholesale Price Index	Cost of Living Index
1914	25.16	5.17	0.995	100	100
1915	25.03	5.27	0.995	n.a.	117
1916	24.63	5.19	0.989	n.a.	159
1917	24.60	5.17	1.092	n.a.	256
1918	24.82	5.17	1.203	n.a.	366
1919	24.32	5.51	1.066	n.a.	323
1920	34.07	9.44	1.576	n.a.	351
1921	70.38	18.17	3.190	n.a.	398
1922	166.54	36.87	6.900	n.a.	636
1923	296.44	64.00	11.600	n.a.	1181
1924	247.35	56.08	11.220	n.a.	1235
1925	312.62	64.76	12.530	n.a.	1414
1926	386.51	79.56	15.410	n.a.	1633
1927	368.55	75.82	14.650	n.a.	1790
1928	375.00	77.06	14.870	1720	1868
1929	375.00	77.07	14.900	1811	1923

1930	375.00	77.08	14.960	1646	1682
1931	375.00	77.38	15.060	1471	1671
1932	472.97	133.68	26.070	1766	1773
1933	595.96	144.97	34.830	1997	1904
1934	543.94	108.36	34.910	1969	1937
1935	529.15	108.43	34.990	2003	1956
1936	539.26	108.71	32.620	2038	2027
1937	550.00	111.39	25.580	2281	2189
1938	550.00	111.00	25.550	2227	2172

Notes: All figures annual averages exchange rates cited at Bank of Athens (1914-1927); NBG (1928-1938); BoG (1928-1938).

Wholesale Price Index based on price in Athens and Piraeus area.

The inclusion of official prices for several items leads the index to understate the rate of price inflation at times of risking prices; the reverse may also hold in periods of deflation.

Adapted from: Annuaire Statistique; Mazower (1987: 366).

Figure 6: General Price Index (1916-1938)

General price Index 1916-1938 (1914=100)

1916	159
1917	156
1918	368
1919	323
1920	351
1921	398
1922	686
1923	1,181
1924	1,235
1925	1,414
1926	1,633
1927	1,790
1928	1,868
1929	1,923
1930	1,682
1931	1,671
1932	1,773
1933	1,904

1934	1,937
1935	1,957
1936	2,028
1937	2,185
1938	2,173

Adapted from: Charitakes (ed. 1929: 211) Economics; General Statistical Agency Yearbook (1930: 236).

Figure 7.: Countries & 'Golden Fetters' 1919-1938

Country	'Golden Fetters' Adopted	'Golden Fetters' Suspended	Foreign Exchange Controls Imposed	Devaluation
Argentina	Aug. 1927	Dec. 1929	Oct. 1931	Nov. 1929
Australia	Apr. 1925	Dec. 1929		Mar. 1930
Austria	Apr. 1923	Apr. 1933	Oct. 1931	Sept. 1931
Belgium	Oct. 1925	Mar. 1935	Mar. 1935	Mar. 1935
Bolivia	Jul. 1928	Sept. 1931	Oct. 1931	Mar. 1930
Brazil	Jan. 1927	De. 1929	May-31	Dec. 1929
Bulgaria	Jan. 1927	1931	Oct. 1931	-
Canada	Jul. 1926	Oct. 1931	-	Sept. 1931
Chile	Jan. 1926	Apr. 1932	Jul. 1931	Apr. 1934
Columbia	Jul. 1923	Sept. 1931	Sept. 1931	Jan. 1932
Costa Rica	Oct. 1922	-	Jan. 1932	Jan. 1932
Cuba	Jun. 1919	Nov. 1933	Jun. 1934	Apr. 1933
Czechoslovakia	Apr. 1926	1931	Sept., Oct. 1931	Feb. 1934
Denmark	Jan. 1927	Sept. 1931	Nov. 1931	Sept. 1931
Ecuador	Aug. 1927	Feb. 1932	May-32	Jun. 1932
El Salvador	Jan. 1920	Oct. 1931	Aug. 1933	Oct. 1931
Estonia	Jan. 1928	Jun. 1933	Nov. 1933	Jun. 1933
Finland	Jan. 1926	Oct. 1931	-	Oct. 1931
France	Aug. 1926	1936	Jul. 1931	Oct. 1936

Germany	Sept. 1924	May-31	Jul. 1931	-
Great Britain	May-25	Sept. 1931	-	Sept. 1931
Greece	May-28	Apr. 1932	Sept. 1931	Apr-32
Hungary	Apr. 1925	1931	Jul-71	-
Italy	Dec. 1927	1936	May-34	Oct. 1936
Japan	Dec. 1930	Dec. 1931	Jul. 1932	Dec. 1931
Latvia	Aug. 1922		Oct. 1931	-
Netherlands	Apr. 1925	Sept. 1936	-	Sept. 1936
Nicaragua	Jun. 1919	Nov. 1931	Nov. 1931	Jan. 1932
Norway	May-28	Sept. 1931	Sept. 1931	Sept. 1931
New Zealand	Apr. 1925	Sept. 1931	-	Apr. 1930
Panama	Jun. 1919	-	-	Apr. 1933
Paraguay	Aug. 1927		Aug. 1932	Nov. 1929
Poland	Oct. 1927	Oct. 1936	Apr. 1936	Oct. 1936
Portugal	1931	1931	-	-
Romania	Feb. 1929	1932	May-32	Jun. 1935
Spain	-	-	May-31	-
Sweden	Apr. 1924	Sept. 1931	-	Sept. 1931
Switzerland	Jun-25	Sept. 1936	-	Sept. 1936
United States	Jun. 1919	Feb. 1933	Mar. 1933	Apr. 1933
Uruguay	Jan. 1928	Dec. 1929	Sept. 1931	Apr. 1929
Yugoslavia	Jun-31	1931	Oct. 1931	Jul. 1932

Adapted from: Bernanke and James (1991); Brown (1940); Crafts and Fearon [eds.] (2013: 19); Wandschneider (2008: 155).

Figure 8.: Debt Servicing as a percentage (%) of earnings from exports

Country	1926	1928/29	1931/32
Argentina	*10*	10.4	27.6
Australia	–	28	–
Bolivia	7.3	7.8	50
Brazil	13.1	16.7	40.4
Bulgaria	–	12.3	22
Chile	5.5	9.2	102.6
Colombia	2.7	11.9	21.8
Greece	–	32	44
Hungary	–	17.9	48
Peru	2.6	7.4	21.4
Poland	–	11.3	27
Romania	–	14.6	36
Yugoslavia	–	18.1	36

Adapted from: Aldcroft (1997: 131); Cardoso and Dornusch (1989: 119); Drabeck (1985: 425); Jorgensen and Sachs (1989: 58); Mazower (1991: 112, 202); Notel (1986: 223).

Figure 9.: Unemployment in Greece (1928-1935)

Unemployment (number of unemployed population)

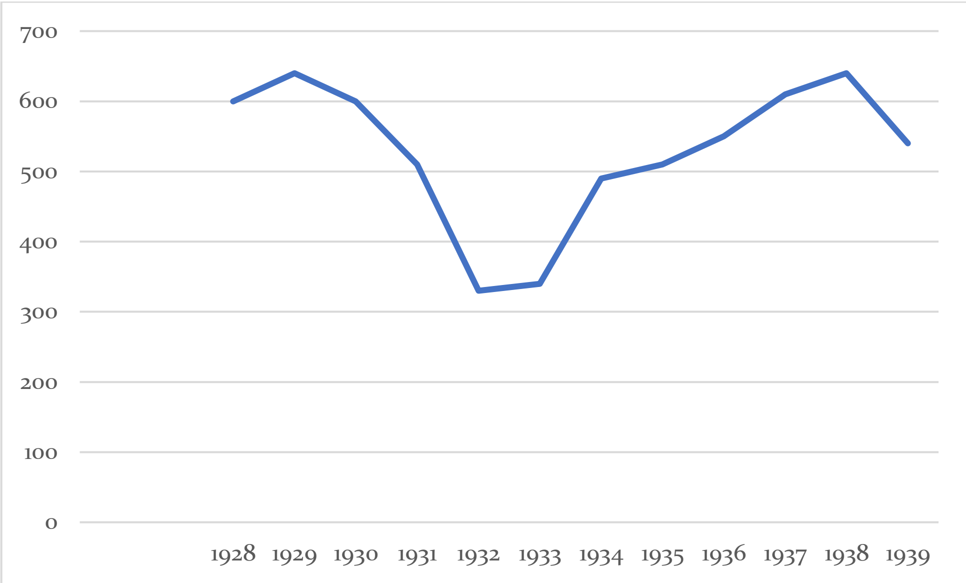
1928-1935

Year	In thousands	Percentage
1928	75	100
1929	127	170
1930	165	220
1931	218	290
1932	237	316
1933	156	208
1934	162	216
1935	150	200

Adapted from: Angelopoulos (1937: 177); GSEE (various annual reports).

Figure 10.: National Income in Greece: 1927-1939 (in millions of drachmae) (i.

The chart shows the National Income in Greece in millions of dollars at current prices.



Adapted from: Evelpides (1950: 1442) Economics *Ibid.,* p. 1433; Column 3: Calculation of annual rate of column 1 and next table actual increase in gross income.

Final price = initial price $(1+r)^{n}$

$30{,}948 = 24{,}615\,(1+r)^{12}$

r= 0.01926

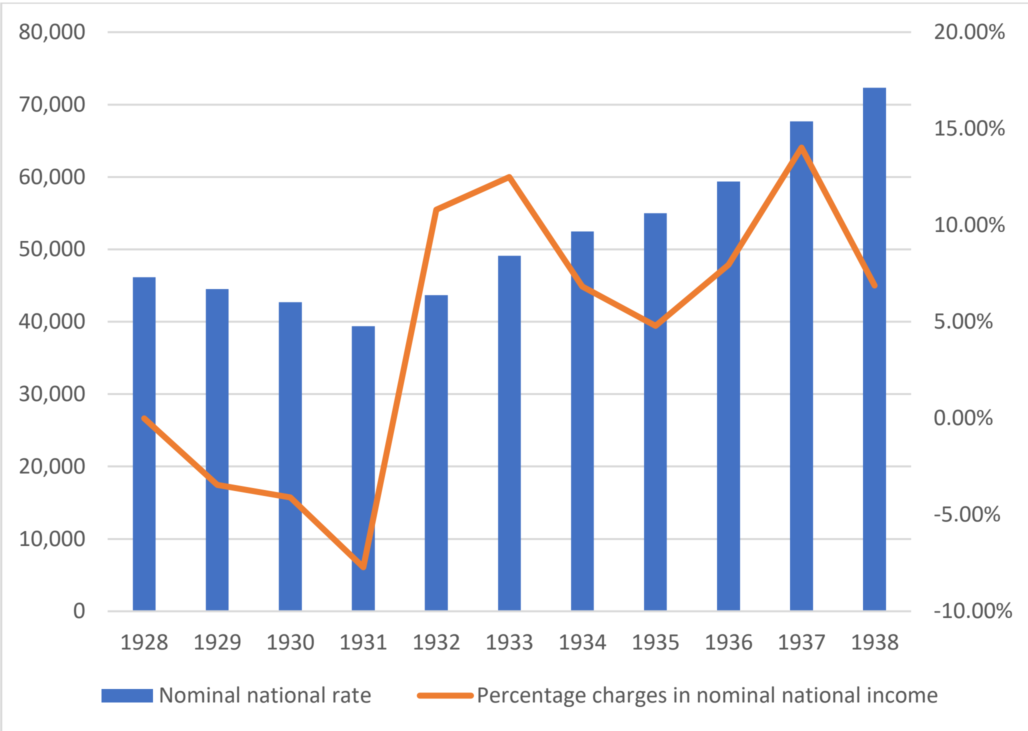
r=1.9

Figure 11.: The 'Great Crash' & Greek Economy

Greek Budgets, 1931/2-1936/7 (million drachmae)						
Revenue & Expenditure	1931/2	1932/3	1933/4	1934/5	1935/6	1936/7
Revenues						
Ordinary	8,936	7,969	8,284	9,154	10,299	11,166
Extraordinary	2,525	1,365	329	328	654	2,225
Total effective revenue	11,461	9,334	8,613	9,482	10,953	13,391
Untransferred external debt inerest	-	-	1,496	1,333	1,208	1,194
Total gross revenue	11,461	9,334	10,109	10,815	12,161	14,585
Expenditure						
External debts service	2,657	1,198	642	929	995	1,028
Domestic debt service	511	442	707	719	847	783
Defence	1,767	1,813	1,900	2,029	2,433	4,545
Public works	1,776	1,377	603	440	674	558
Roads	118	112	120	215	239	213
Pensions	665	661	683	797	915	1,188
Education	669	686	698	872	940	940
Other	3,398	3,232	3,270	3,320	3,898	4,026
Total (excluding external debt service	8,904	8,323	7,981	8,392	9,946	12,253
Total effective expenditure	11,561	9,521	8,623	9,321	10,921	13,291
Untransferred external debt interest	-	-	1,496	1,333	1,208	1,194
Total gross expenditure	11,561	9,521	10,119	10,654	12,129	14,485

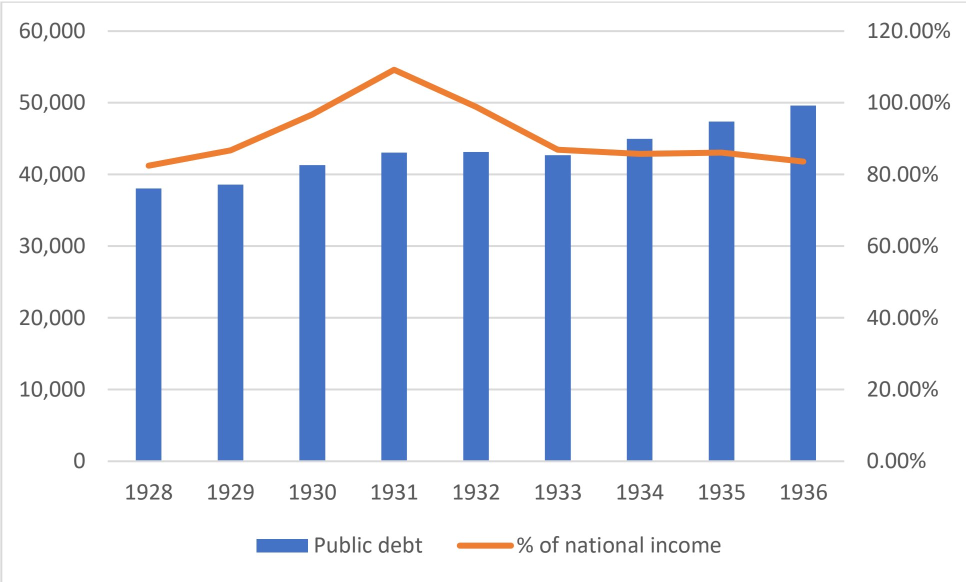
Adapted from: The rates of Economic Activity originate from the AOS (1935); The rates of Manufacturing Activity are based on the estimates of Christodoulaki (2001); The calculation on GNP and the Monetary Indicators from Kostelenos *et al.* (2007; tables 9-9IVe); The Currency Reserve from Pyrsos; The Budget Deficit from successive Annual Reports of the Bank of Greece; The Price Index from Charitakes (1930; 1931; 1939), with an exception of the Export Price Index, which is from Bank of Greece (1934: table3).

Figure 12: Nominal national rate (1928 – 1938)



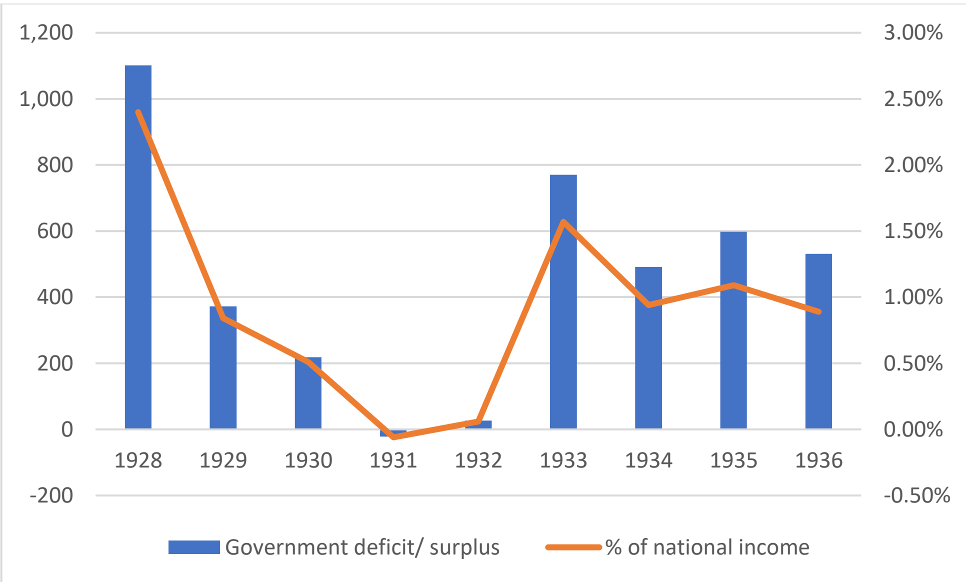
Adapted from: BoG (2019)

Figure 13: Greek Public Debt (1928-1936)



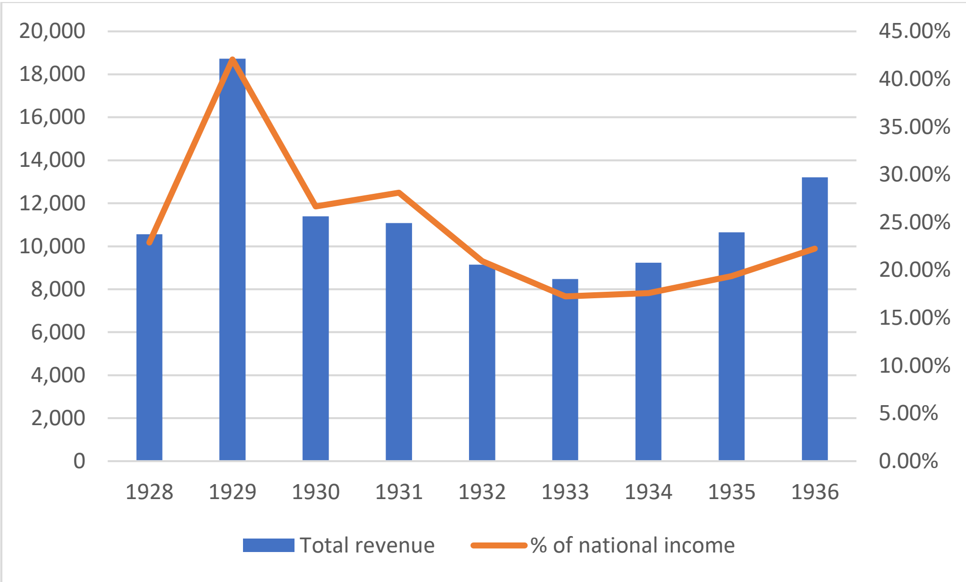
Adapted from: BoG (2019)

Figure 14: Greek Government deficit/surplus (1928-1936) (in millions of drachmae)



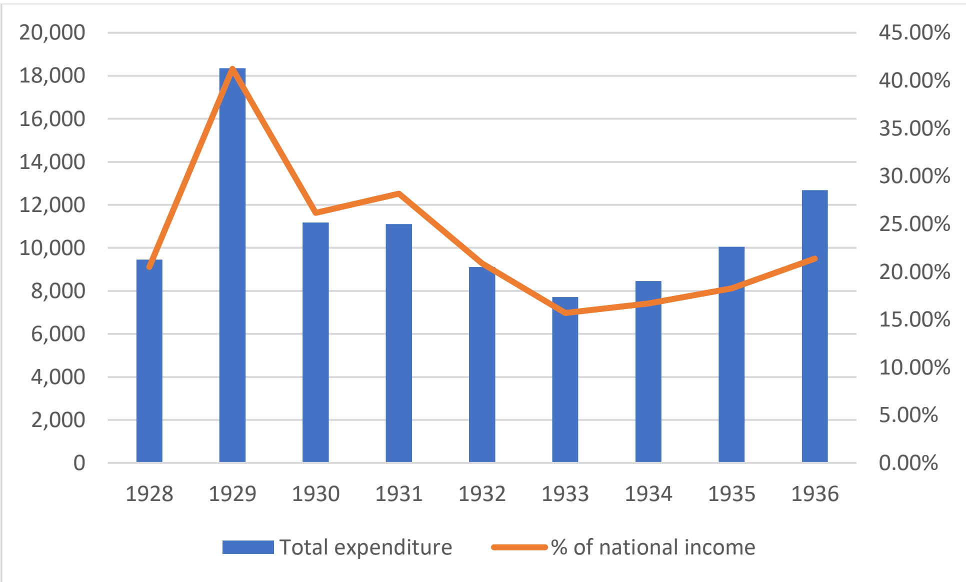
Adapted from: BoG (2019)

Figure 15: Total revenue (1928-1936)



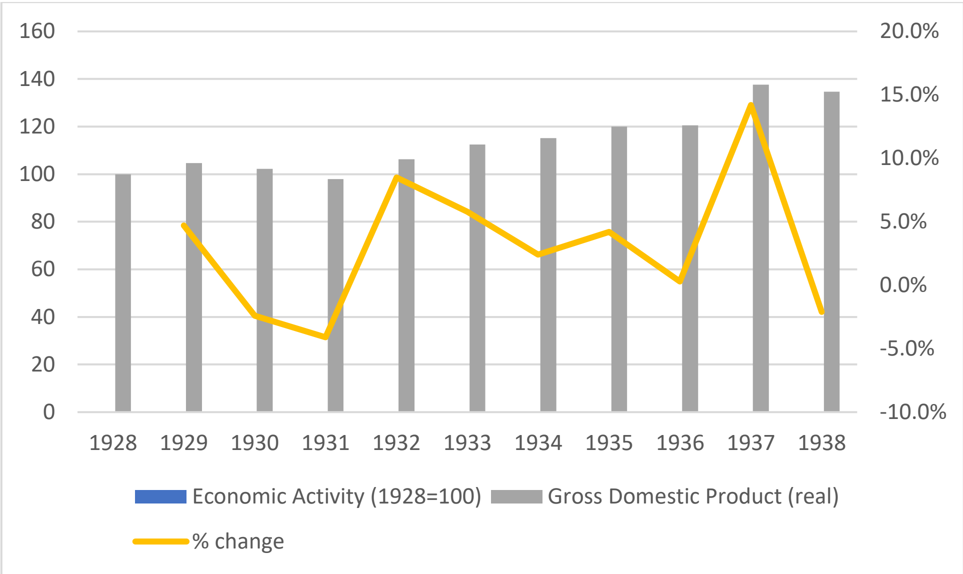
Adapted from: BoG (2019)

Figure 16: Total expenditure (1928-1936)



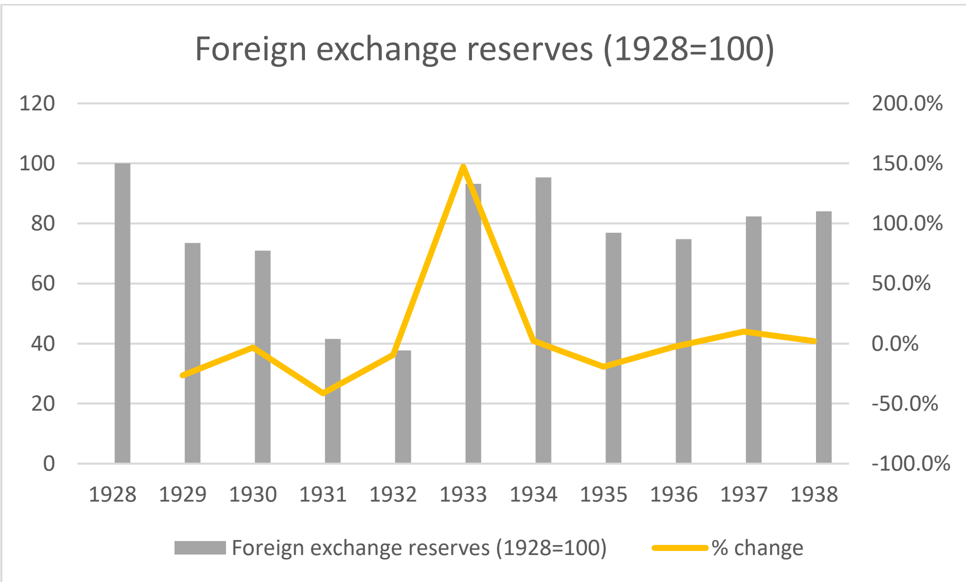
Adapted from: BoG (2019)

Figure 17: Greek Gross Domestic Product (real) from 1928 until 1938



Adapted from: SEEMHN (2014)

Figure 18: Foreign exchange reserves (1928=100)



Adapted from: BoG (2019)

A. List of interviewees and private communications

Interviews

INT-1 University Professor; former EU Ombudsman, Athens, July 26, 2019 (in-person); Athens, Oct. 5, 2019 (in-person); May 5, 2020 (on-line); July 27, 2020 (on-line).

INT-2 former IMF Director, London, July 13, 2019 (in person); April 8, 2021 (on-line).

INT-3 Member of Parliament; Former Minister; General Director of Public Revenue, Ministry of Finance, Athens, July 26, 2019 (in-person); Jan. 23, 2021 (on-line).

INT-4 University Professor; Member of Parliament; Former Minister of Economy, Athens, August 7, 2019 (in person); August 2, 2021 (on-line).

INT-5 University Professor, senior economic advisor, Athens, September 9, 2019 (in person); April 22, 2021 (on-line).

INT-6 former senior member at IMF, Athens, September 26, 2019; December 15, 2019 (on-line); April 18, 2021 (on-line).

INT-7 Central Bank Governor; former Minister of Finance Athens, September 2, 2019 (in-person); September 15, 2020 (on-line).

INT-8 senior fellow, think tank; former senior member at IFI; former economic advisor to Prime Minister, Athens, September 17, 2019 (in-person); September 24, 2020 (on-line); November 20, 2021 (telephone).

Private Communications

PVT COMM-1 former president, European Commission; former Prime Minister, Delphi, March 1, 2019 (in-person).

PVT COMM-2 former Central Bank Governor, Athens, March 2, 2019 (in person); Athens, September 26, 2019 (in person); September 21. 2021 (on-line).

PVT COMM-3 former Prime Minister; former Central Bank Governor, Athens, March 3, 2019 (in person); January 11, 2021 (telephone); February 27, 2021 (on-line).

PVT COMM-4 US Ambassador, Athens, March 4, 2019; 26 September 2019 (in person); March 4, 2020(on-line); July 26, 2021 (on-line).

PVT COMM-5 Vice President, European Commission; former senior member, European Commission, March 4, 2019; October 5, 2019 (on-line); March 5, 2020 (on-line) May 21, 2021 (on-line).

PVT COMM-6 Central Bank Governor; former Minister of Economic Affairs; former European Commissioner, October Athens, March 6, 2019 (in-person); Athens, Sept. 20, 2019 (in-person); Jan. 20, 2020 (on-line).

PVT COMM-7 University Professor, Former Minister of Finance; former senior economic advisor, Athens, Sept. 21, 2019 (in person); September 25, 2019 (in-person) March 6, 2020 (on-line).

PVT COMM-8: University Professor; former country officer at IFI, September 26, 2019 (on-line); January 25, 2020; Athens, May 26, 2020 (on-line); Dec. 15, 2020 (on-line).

PVT COMM-9 Minister; University Professor; Senior Economic Advisor, February 9, 2020 (on-line); March 16, 2021(on-line); June 17, 2021 (on-line).

PVT COMM-10 former president, SEV, July 30, 2020 (on-line); August 5, 2020 (on-line).

PVT COMM-11 senior Staff, Bank of Greece, Athens, September 27, 2019 (in-person); February 21, 2020 (on-line); March 29, 2020 (on-line); July 19, 2020 (on-line); July 27, 2020 (on-line).

PVT-COMM-12 University Professor, senior economist, Hellenic Federation of Enterprises (SEV), September 29, 2020 (on-line); Oct 5, 2020 (on-line); February 6, 2021 (on-line).

PVT COMM-13 University Professor; senior economist IFI (via email), September 30, 2020 (on-line); February 28, 2021 (on-line).

PVT COMM-14 former Minister of Finance, December 9, 2020 (on-line); February 11, 2021 (on-line); February 21, 2021 (on-line).

B. List of Archival Material

1. **IA/ETE – Historical Archives, National Bank of Greece (*Ιστορικό Αρχείο Εθνικής Τράπεζας της Ελλάδος*), Athens, Greece.**

IAETE_$Α_1Σ_{22}Υ_6Φ_9$ Greek

IAETE_$Α_1Σ_4Υ_3$

IATE_$Α_1Σ_4Υ_3Β_1$

IATE_$Α_1Σ_{18}Υ_2Φ_2$

IATE_$Α_1Σ_2Υ_{17}Φ_4$

IATE_$Α_1Σ_2Υ_{17}Φ_5$

IATE_$Α_1Σ_{18}Υ_1Φ_{147}$

IATE_$Α_1Σ_{10}Υ_1Φ_{184}$

IATE_$Α_1Σ_{18}Υ_2Φ_4$

IATE_$A_1\Sigma_{18}Y_2\Phi_5$

IATE_$A_1\Sigma_{18}Y_2\Phi_7$

IATE_$A_1\Sigma_{18}Y_2\Phi_8$

IATE_$A_1\Sigma_{18}Y_2\Phi_9$

IATE_$A_1\Sigma_{18}Y_2\Phi_{12}$

IATE_$A_1\Sigma_{28}Y_1\Phi_{10}$

IATE_$A_1\Sigma_{22}Y_6\Phi_1$

IATE_$A_1\Sigma_{22}Y_6\Phi_6$

IATE_$A_1\Sigma_{22}Y_6\Phi_7$

IATE_$A_1\Sigma_{22}Y_6\Phi_8$

IATE_$A_1\Sigma_{22}Y_6\Phi_{10}$

IATE_$A_1\Sigma_{22}Y_6\Phi_{11}$

IATE_$A_1\Sigma_{21}Y_{10}\Phi_9$

IATE_$A_1\Sigma_{21}Y_{10}\Phi_{10}$

IATE_$A_1\Sigma_{50}Y_6\Phi_{452}$

2. **IA/TTE – Historical Archive, Bank of Greece (*Ιστορικό Αρχείο Τράπεζας της Ελλάδος*), Athens, Greece.**

IAT/TTE_A_3 Archive of Emmanuel Tsouderos

IA/TTE_A_4 Archive of Kyriakos Varvaressos

IA/TTE_A_5 Archive of George Mantzavinos (non-binded)

3. **Benaki Museum (*Μουσείο Μπενάκη*), Athens, Greece.**

Eleftherios Venizelos Archive (A/EV. Digital Archive. accessible via http: //www.venizelosarchives.gr.

4. **National Parliamentary Archives (*Ιστορικό Κοινοβουλευτικό Αρχείο*), Athens, Greece.**

ΕΣΓ (Εφημερίς των Συζητήσεων της Γερουσίας).

ΕΣΒ (Εφημερίς των Συζητήσεων τηε Βουλής).

ΠΣΒ (Πρακτικά Συνεδριάσεως της Βουλής).

5. **Parliamentary Library (*Βιβλιοθήκη της Βουλής*), Athens, Greece**

Newspaper Archive: Akropolis (Akropolis), Vradyni (Βραδυνή), Estia (Εστία), Patris (Πατρίς), Proia (Πρωία)

6. **Historical Archives, Bank of England (HA_BoE), Overseas Department (OV), London, United Kingdom.**

OV80/80 Greece – Country File ('Greek Extracts').

OV9 Montagu Norman Diaries.

7. **The National Archives, General Correspondence of the Foreign Office (FO), Southern European Department, London, United Kingdom.**

371: General and Political

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Project Syndicate (newspaper)

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