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The State and the Economy of Modern Greece
Key Drivers from 1821 to the Present

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Abstract

This paper reviews, analyses and interprets the history of the state and the economy of modern Greece, from the eve of the war for independence in 1821 to the present. It identifies three major historical cycles, the cycle of state and nation building, 1821-1898, the cycle of national expansion and consolidation, 1899-1949, and the post-1950 cycle of economic and social development. During these two hundred years, Greece managed to almost triple its national territory, to increase its population by almost 15 times and to increase its real GDP per capita by another 15 times. Yet, Greece was also characterized by long periods of low economic growth and political and economic instability, including national 'schisms' and civil wars, high inflation, international over-indebtedness, and sovereign debt crises and defaults. The analysis focuses on the key drivers of these developments, exploring the dynamic interactions of ideas and values, economic and social conditions, political and economic institutions, geopolitical circumstances and international economic and financial regimes.

JEL Classification: N1, N2, N4

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

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The state and the economy of modern Greece have had a history of about two centuries. During these two hundred years, the country and its economy have been radically transformed. The first state of modern Greece came about in 1828 and was internationally recognized in 1830, after a war of independence that lasted for almost nine years.

In relation to the first state of 1830 Greece has since managed to almost triple its national territory, to increase its population by almost 15 times and to increase its real GDP per capita by another 15 times. It has managed to move from the margins of south-eastern Europe to the core of today's European Union.

In this paper we review, analyze and interpret the history of the state and the economy of modern Greece, from the eve of the war of independence in 1821 to the present day. We focus on the main determinants of its transformations and growth, with particular emphasis on the role and interactions of the underlying social and economic conditions, national, social and economic ideas and values, institutions and policies, as well as the effects of geopolitical circumstances and international economic and financial regimes.[1]

The evolution of the Greek state and its economy is described and analyzed in the context of three major historical cycles: The cycle of *state and nation building* of 1821-1898, the cycle of *national expansion and consolidation* of 1899-1939 and the *cycle of economic and social development*, 1949 until the present.

Historically, the performance of the Greek economy has been characterized by long periods of low economic growth and shorter periods of high growth. The long periods of low growth of the Greek economy are attributed to the inadequacy of domestic savings and investment, especially investment in sectors characterized by rapid technical progress.

The two major recurring macroeconomic imbalances of the Greek economy identified in this study are related to public finances and the balance of payments. Both the fiscal balance and the current account balance were generally negative, and constituted the large twin deficits of the Greek economy. These have resulted in growth pauses, long periods of monetary instability, excessive foreign borrowing, and periods of external debt crises and defaults.

The approach to the economic history of a national state cannot be merely descriptive. It must be mainly analytical and interpretive. The aim of this paper is the identification and

[1] There is a large selection of relatively broad recent overviews of the political and economic history of modern Greece, both in English and in Greek. For general overviews in English see Beaton (2020), Clogg (1992), Gallant (2016), Kalyvas (2015), Koliopoulos and Veremis (2010) and Kostis (2018). Dakin (1972) surveys the period from the late 18th to the early 20th century. For a neo-marxist perspective up to the mid-1970s, see Mouzelis (1978). For the role of the ideas of the enlightenment see Kitromilides (2013). Most of the above have been translated to Greek or written originally in Greek. For additional overviews in Greek see Dertilis (2004, 2020), Fraghiadis (2007) and Patronis (2015). For a monetary history of modern Greece up to euro area entry see Alogoskoufis and Lazaretou (1997). Kostis and Petmezas (2006) contain a number of analytical studies that focus on the 19th century, while Kalafatis and Prontzas (2011) contains a selection of papers on a wide range of economic and institutional aspects. Mazower (1991) focuses on the inter-war period, Iordanoglou (2020) focuses on the post war period of high growth, while Alogoskoufis (2021 b) on the post-1974 period, before and after the euro. Most of the overviews have been written by historians or political scientists, and, as a result, the analytical focus is mostly on politics and geopolitics. However, contributions by economists are gradually rising, allowing for a greater analytical focus on the economic aspects of Greece's history.

analysis of the deeper factors that have determined and, to some extent, continue to determine the historical course of the Greek state and the performance and imbalances of its economy.

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

It is through the dynamic interdependence of such domestic and international factors that national priorities and policies are determined and implemented. The underlying economic and social conditions, ideas and values and institutions clearly contribute to national, social, political, and economic developments, as they help determine the nature and effectiveness of national pursuits and policies. On the other hand, such developments in turn lead to adaptations of the economic and social conditions, ideas and values and the institutions themselves. Finally, geopolitics and a country's integration into the international system of governance and defense and the international economic and monetary system are crucial, especially for a small country. Appropriate alliances and the extent of its participation in international institutions, gives a small country extra leverage and facilitates the fulfilment of its priorities. It also determines the extent to which it can get help from abroad if it needs to. Making good use of such opportunities can be helpful but overextending oneself can sometimes have extremely negative consequences. On the other hand, success breeds success. Successful policies give a country extra leverage in forming international alliances and participating in the international system, which in turn helps in creating the conditions for further success.

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

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

The rest of the paper is organized as follows: In section 1, we present a bird's eye view of the evolution of the Greek economy from the war of independence to the Covid-19 crisis, in the context of the three major historical cycles that we have identified. In section 2 we analyze the key drivers of the evolution of the state and the economy of modern Greece. The last section sums up the conclusions.

1. Three Major Cycles in the History of Modern Greece

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

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

The third is the cycle of *economic and social development*. This historical cycle covers the second half of the 20th century, after the end of the civil war in 1949 and lasts until the present. Its three key features have been the growth 'miracle' of the 1953-1973 period, accompanied by unprecedented fiscal and monetary stability, the democratic and social 'miracle' of the period 1974-2020, following the restoration of democracy in 1974 and the national 'reconciliation', and, finally, the accession of Greece to the European Union in 1981 and the gradual adoption of its institutions and policies.[2]

[2] The identification of these three historical cycles is explained in more detail in Alogoskoufis (2021 a). Kalyvas (2015) distinguishes between seven boom, bust and bailout cycles, while Dertilis (2016) identifies seven wars, four civil wars and seven 'defaults'. My identification of the three major historical cycles is based on the great national achievements achieved in each of them, i.e. first, state and nation building, second, the expansion and consolidation of the Greek state, and, third, its economic and social development. Each of these cycles also included a number of negative aspects, but Greece seems to have achieved its major goals in each of these historical cycles. Many of the characteristics of the major historical cycles identified here are also present in the seven cycles identified by Kalyvas and in the analysis of wars, civil wars and 'defaults' of Dertilis.

Table 1
Key Achievements and Weaknesses in the Emergence of Modern Greece

	Independence and State Building 1821-1898	National Expansion and Consolidation 1899-1949	Economic and Social Development 1950-
Key Achievements	War of Independence State Building National Identity Constitutions and Parliamentary Democracy	Territorial Expansion Population Expansion National Consolidation	Economic Development (1950-73) Restoration of Democracy (1974) Social Development (since 1974) European Union (since 1981)
Key Weaknesses	Economic Stagnation Fiscal and Monetary Instability Debt 'Defaults' (1826, 1843,1893) War of 1897	National Schism Asia Minor Campaign Military Coups and Dictatorships Civil War Fiscal and Monetary Instability Debt 'Default' of 1932	Democratic and Social Gaps (1950-67) Dictatorship (1967-1974) Cyprus (1960, 1974) Stagflation (1979-92) Debt 'Crisis' (2010) 'Great Depression' (2010-16)

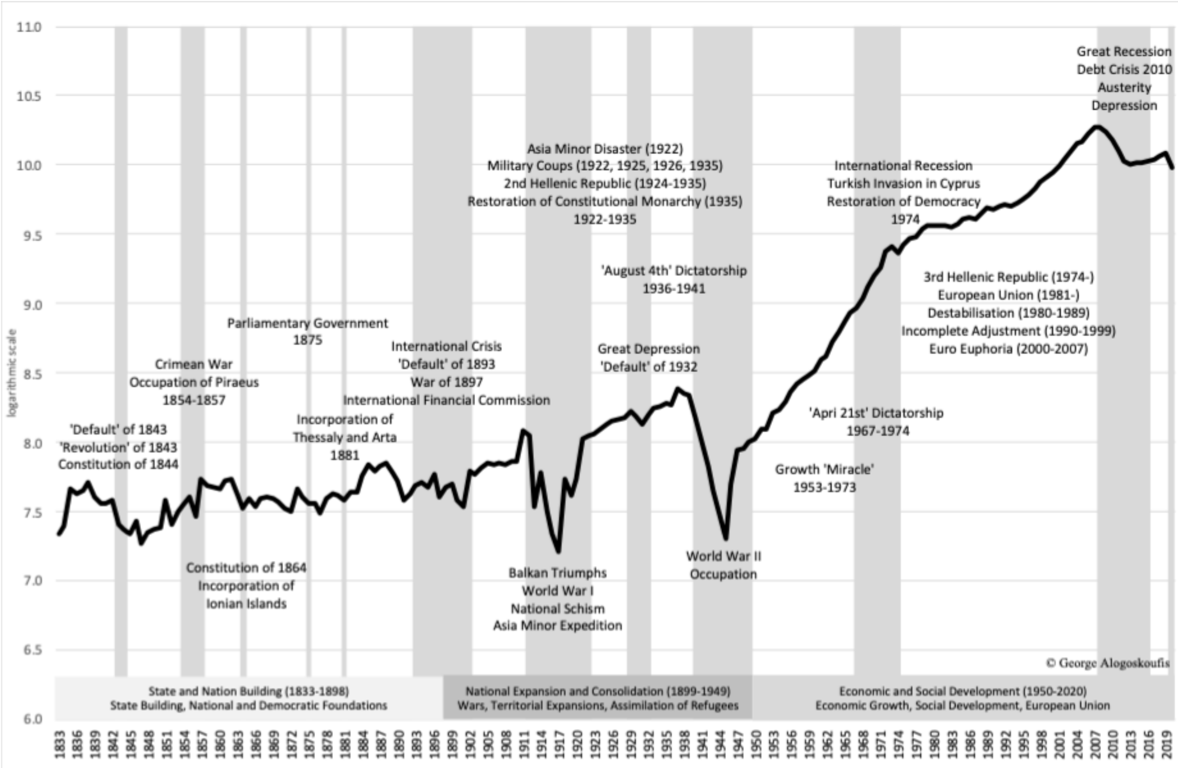
The main achievements and weaknesses of Greece during these historical cycles are summarized in Table 1.

In Figure 1, these three historical cycles are related to the course of the economy of modern Greece, as described by the evolution of real GDP per capita from 1833 to 2020. Figure 1 also presents some of the most important political, economic and international events which were critical for the evolution of the Greek state and the Greek economy.[3]

Figure 2 depicts the expansions of the area and population of modern Greece. The largest area and population expansion occurred after the Balkan wars, when the area covered by the Greek state almost doubled, from approximately 63 thousand to 120 thousand square kilometers, through the annexation of a large part of Epirus and Macedonia, Crete and the islands of the North-eastern Aegean. The population of Greece increased by almost 70%, from approximately 2.8 million to 4.8 million inhabitants. Following the Asia Minor disaster and the Treaty of Lausanne, the area of Western Thrace was also annexed by Greece, while the

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

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



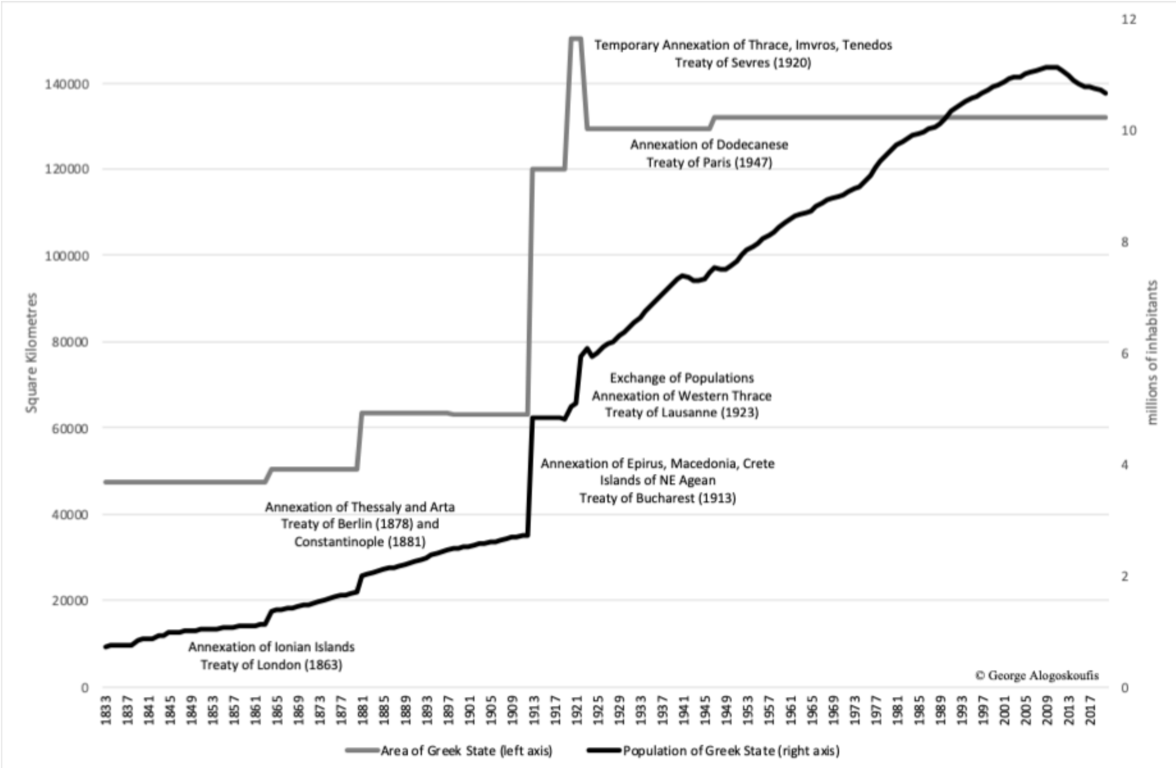
Source: Maddison Project and European Commission. Real GDP per capita is measured in PPP adjusted US dollars, at 2011 prices and is presented in a logarithmic scale.

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

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

Since the outbreak of World War I inflationary episodes have been more severe and more persistent. Annual inflation rose to 56,6% in 1917, during Greece's participation in World War I and peaked at 94% in 1922, the year of the Asia Minor disaster. During World War II, the occupation and its aftermath, Greece experienced five years of hyperinflation. Even if one

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



Source: Hellenic Statistical Authority

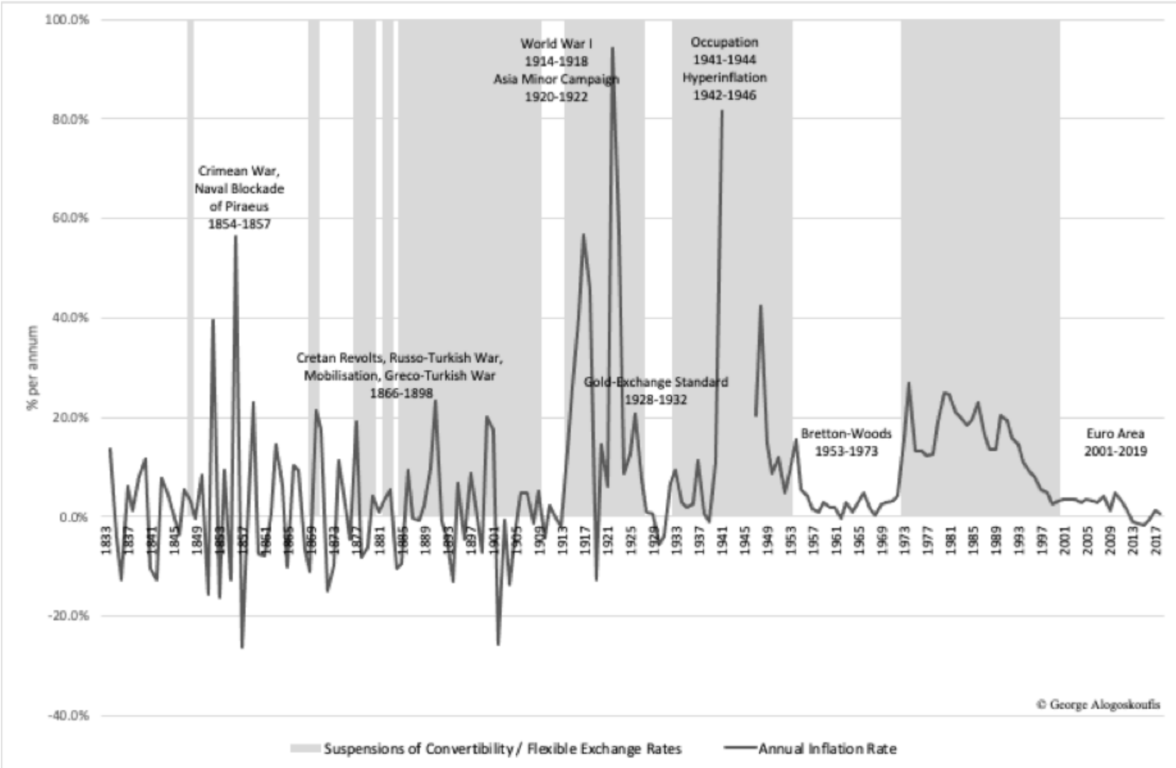
were to ignore the period of hyperinflation during the triple occupation of 1941-1944 and the subsequent civil war of 1944-1949, average annual inflation during the 1899-1939 period was slightly in excess of 10%, five times higher than during the previous historical cycle.

Despite the large, but temporary, economic and monetary collapses caused by the Balkan wars, World War I and World War II and the occupation, in this second historical cycle, there was an acceleration of both the transformation of the Greek economy and the rate of economic growth. For the period up to the occupation of 1941-1944, the average annual growth rate of real GDP per capita almost tripled compared to the previous cycle, to 2,9%, despite the wars, the internal conflicts and the political and economic instability that prevailed for long periods. Yet, because of the occupation and the civil war, the Greek economy was devastated at the end of this historical cycle, and in need of a total reconstruction.[4]

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

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

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



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

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

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

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

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

2. Key Drivers of the Historical Cycles of the State and the Economy

In order to analyze, interpret and contrast the three historical cycles of the Greek state and the performance, imbalances and crises of the economy of modern Greece during these cycles, we shall focus on the interdependence of the dominant ideas and values that have been the driving force of Greek society and the state, the prevailing social and economic conditions, the institutions through which state policy was implemented and the geopolitical and international circumstances which influenced the direction of state policy and its effectiveness.

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

Table 2 summarizes the forces that operated during each of the three historical cycles that we have identified and their evolution.[5]

The active role of the Greeks in shipping and the international trade of the Ottoman Empire after the 18th century, contributed to the formation of a prosperous Greek-speaking Orthodox-Christian mercantile and maritime class. This class played a decisive role in the awakening of the Greek national consciousness through its support of the Hellenic enlightenment and exploited the contradictions of the Ottoman system for the benefit of

[5] For alternative perspectives to the issues examined in this section, see Dertilis (2018), , Kalyvas (2015), Koliopoulos and Veremis (2002), Kostis (2018) and Mouzelis (1978). Despite differences in focus and emphasis, these perspectives are not necessarily inconsistent either among themselves or with the perspective of the present paper.

Table 2
Key Drivers of the Historical Cycles of Modern Greece

	Independence and State Building 1821-1898	**National Expansion and Consolidation 1899-1949**	**Economic and Social Development 1950-**
Key Ideas and Values	Greek Nationalism The Enlightenment The 'Great Idea' Economic Liberalism	The 'Great Idea' National Consolidation State Intervention for Economic and Social Protection	Economic Growth Political Participation and Social Justice Mixed Economy Europe
Economic and Social Conditions	Lack of Resources Predominance of Agriculture Hellenic Diaspora	Integration of New Lands and Populations Gradual Decline of Agriculture Long Wartime Periods	Urbanization Industrialization and De-industrialization Emergence of a Dynamic Middle Class
Political Institutions	Influence of Protective Powers From Authoritarian Government to the Emergence of Parliamentary Democracy	National Schism and Political Instability Military Interventions and Dictatorships Occupation and Civil War	Non-inclusive Democracy, Dictatorship, Restoration of Democracy and the 1975 Constitution
Economic Institutions	Wide Distribution of National Lands Budgetary and Monetary Instability	Mixed Economy Cycles of Fiscal and Monetary Stabilization and Destabilization	Mixed Economy From Growth Planning to EU Liberalisation Cycles of Fiscal and Monetary Stabilization and Destabilization
Geopolitical Circumstances	Decline of the Ottoman Empire Antagonisms among Protecting Powers Emergence of Balkan Nationalism	Ottoman Decline and Emergence of Turkish Nationalism Major European Wars Post-War Alliances	The Western Alliance and the Cold War Pax Americana The European Union
International Economic Circumstances	19th Century Globalization Bimetallism and the Gold Standard Migration towards the New World	Wars and Interwar Protection Great Depression International Monetary Instability	Bretton Woods and its Aftermath Long Period of Growth and Stability The EU, the Great Moderation and the Euro

Hellenism. This cosmopolitan ruling class was influenced by the European enlightenment of the 18th century earlier than the other ruling classes of the Ottoman Empire.

Due to this tradition, but also due to the social and economic conditions that prevailed within Greece, the Greeks were exposed to liberal and democratic ideas and values from the 18th century. This was reflected in the preparations for the war of independence and the constitutions agreed upon during this struggle. This political legacy, despite the imposition of the Monarchy by the Protecting Powers in 1832, eventually led to the adoption of the constitution in 1844, the universal suffrage of men as early as 1847, parliamentary governments since 1875 and one of the longest parliamentary histories in Europe. Despite the often-turbulent political life and the relatively short periods of authoritarian regimes and dictatorships, the democratic tradition always re-surfaced and eventually prevailed.

The second key driver of the historical developments was related to the social and economic circumstances of the Greek population and their evolution. These initially included the lack of natural resources, the predominance of agriculture but also the existence of a rich and cosmopolitan Hellenic diaspora of entrepreneurs and intellectuals.

The third key driver was related to the political and economic institutions that developed during and after the war of independence. Although governance was democratic and pluralistic during the war of independence, after the appointment of Kapodistrias as Governor of Greece in 1827, the constitution was suspended. Following the murder of Kapodistrias, the Protecting Powers imposed an absolute Monarchy. However King Otto was soon forced to concede a constitution, and since 1844, constitutional government became the established norm, despite the fact that the King did not fully respect the spirit of the constitution. Constitutional government was strengthened after the replacement of Otto by King George I and the new constitution of 1864. A full parliamentary system was put in place after 1875, when King George conceded the principle that governments appointed by the King must command the support of parliament.[6]

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

Finally, international economic developments and in particular the process of economic globalization was another key driver of historical developments relating to the Greek economy. Greece initially adopted a metallic monetary standard in order to foster a market economy and to be able participate in international markets for goods, services and capital. It was affected by the first wave of globalization in the 19th century. It again tried to participate in international capital markets in the interwar years, with little success, but was more successful when in participated in the Bretton Woods system, between 1953 and 1973. During the international economic crisis of the late 19th century, hundreds of thousands of young Greeks emigrated to the United States. Migration to Western Europe, and particularly

[6] The role of institutions for economic performance was first pointed out by economic historians, as they viewed the accumulation of physical and human capital and technological progress as expressions of the process of economic growth and not as its fundamental determinants. In the view of North and Thomas (1973), North (1990), and in the view of many other economic historians, the fundamental explanation for comparative economic performance lies in differences in institutions. Economists turned their attention to the role of institutions, following the pioneering empirical study by Acemoglu, Johnson and Robinson (2001), and the literature that emerged subsequently. See for example Acemoglu, Johnson and Robinson (2005) and Acemoglu and Robinson (2006, 2012).

Germany, was also significant after the end of World War II and after the crisis of 2010. Greece participated in all western economic institutions after World War II and became a full member of the European Communities in 1981 and the euro area in 2001.

2.1 Ideas and their Interactions with Social and Economic Conditions and Institutions

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

As early as the 18th century, the emergence of a prosperous and cosmopolitan mercantile and maritime class facilitated the re-awakening of the Greek national consciousness based on the ideas and values of the European enlightenment. This was critical for the preparations for the war of independence. These developments undermined the power of the Ottoman administration and eastern influences in general, reconnecting Greek-speaking Orthodox Christians with ancient Greece and western Europe. In this way the conditions were created for a revolution that was not only national, but also democratic and liberal. These conditions took shape after the creation of the 'Friendly Society', by Greeks of the diaspora. This 'secret' organization, which initially had little impact, gradually expanded to a large part of Greek territory and played an important role in the preparations for the war of independence.[7]

The ideas and values of the enlightenment also played an important role in the political organization of the Greeks during the revolution. The first local political regimes were established from the beginnings of the national struggle for liberation. These regimes, voted in by local Provincial Assemblies during the first year of the revolution, in 1821, aimed at the provisional administrative and military organization of the Greeks. They also provided for the future establishment of a 'Parliament of the Nation'. The creation of these local regimes has been particularly important. These regimes contained, albeit imperfectly, principles of political self-determination and individual freedom, for which, the Greek revolutionaries had taken up arms. On the other hand, their existence strengthened the tendency for an administration and state organization under elected rulers, with the simultaneous maintenance of some of the elements of traditional Greek society.[8]

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

The most important of the Constitutions of the Revolution was adopted in Troizina in May 1827 by the Third National Assembly. The Assembly had already decided that 'the legislature

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

[8] On the role of the enlightenment both for the revolution and the subsequent political organization of modern Greece, see Kitromilides (2013).

should be handed over to only one'. Then, with a resolution, the Assembly elected Ioannis Kapodistrias as 'Governor of Greece' for seven years and approved the 'Political Constitution of Greece', which went down in history as the most liberal and democratic constitution of its time. Although this Constitution was suspended by Kapodistrias, and although the Otto Monarchy was an absolutist regime, democratic ideas and values and the constitutional guarantee of civil liberties reappeared after the September 3, 1843 'revolution' and the adoption of the Constitution of 1844. These remained the dominant ideas and values that defined the political organization of the Greek state, despite the temporary diversions that have occurred from time to time.[9]

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

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

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

After the Second World War and the civil war, the main ideological driving force of the Greek state became the pursuit of economic growth and stability, partly as a result of the extreme instability of the first half of the 20th century and especially the economic and humanitarian crisis of the period of occupation and the civil war. Economic reconstruction and growth thus became the 'new grand idea'. The adoption and implementation of this pursuit took place to a large extent in the period between 1953 and 1973, in the context of the political regime

[9] The democratic and constitutional ideas and values were not uniformly held, but they eventually prevailed. See Alivizatos (2011) for a review of the constitutional history of modern Greece. There was an ongoing 'battle of ideas', or perhaps a 'battle of interests', between 'liberals' or 'modernisers', who were in favour of a strong democratic state, based on the principles of the enlightenment, and 'traditionalists' who favoured an eastern style, even Ottoman, feudal decentralised system of governance. See Petropulos (1968) and Diamandouros (1972) for how this battle determined the formation of the institutions of the modern Greek state. This political 'battle of ideas' appears to have been going on throughout the history of modern Greece, underlying the differences both between and within political parties and shaping events such as the civil wars during the war of independence, the civil war between the departure of Otto and the arrival of George I, and the traumatic 'national schism' of the 20th century.

that was established after the end of the civil war. Despite the divisions created by the civil war, democratic governance survived until the coup of 1967. Economic growth was ‘a tide that lifted all boats’ and helped make the authoritarian and discriminatory aspects of the post-war political regime more palatable. Even the dictatorship of 1967-1974 gained a degree of acceptance because of economic prosperity. At the same time, the social and economic transformations brought about by economic growth started to gradually undermine the regime.

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

2.2 Economic and Social Conditions and Transformations

The economy of the newly established Greek state in 1828 was a small and largely self-sufficient agricultural economy, poor in natural resources, with difficulties in transport and communications due to the morphology of the terrain and the absence of a suitable infrastructure, with low productive efficiency, without sufficient capital and without special productive skills, with the exception of shipping.

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

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

This economic structure, in combination with the policy relating to the ‘national lands’, also determined the social structure of the newly formed state. The primates of the Ottoman period and the military chieftains of the revolution did not manage to appropriate a significant percentage of the cultivated land, due to the fact that a large proportion of the land previously owned by the expelled Ottomans was transferred to the Greek state in the form of ‘national lands’. Both under Kapodistrias and under Otto, the ‘national lands’ were leased long-term, and on relatively favorable terms, to the farmers who cultivated them. This prevented the creation of significant social and economic inequalities and conflicts, and led to the dominance of a large class of small farmers who rented the land from the state and not from large landowners. Large private properties barely exceeded 5% of the total agricultural land. 70% of the arable land belonged to the state, while more than 80% of the 120 thousand rural families were cultivating the 'national lands'.

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

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

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

Primary production remained the main form of economic activity, with a significant share of services (mainly trade) and a gradual increase in the share of industry, albeit from a very low basis. The main driver of this slow transformation seems to have been population growth, which by increasing the density of the population in agricultural areas led to a partial exodus from agriculture.[10]

Gradually, especially from the last quarter of the 19th century, an emerging urban class, consisting of civil servants, the military, merchants and self-employed professionals started emerging and acquiring greater economic and political influence. Even later, mainly after the Balkan Wars, the integration of the populations of the new areas and the great exchange of populations that followed the Asia Minor disaster, a working-class also emerged, consisting of land workers and workers in industry, construction, trade and shipping.

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

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

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

After World War II and the civil war, especially during the 1953-1973 period of high growth, economic and social transformations intensified. The share of agricultural production showed a continuous decrease, from 21% of GDP in 1953, to 14.5% of GDP in 1973. This was in favor of secondary production (manufacturing, construction etc.), which rose from 18.3% of GDP in 1953 to 31.2% in 1973. The share of tertiary production (services) also showed a slight downward trend but remained in the region of around 60% of GDP.[11]

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

The number of farmers decreased significantly, as a large part of the inhabitants of the Greek countryside, especially in the mountainous areas, had left their villages during the civil war, and continued to leave them for the urban centers during the period of high growth, resulting in an explosive increase of the urban population. It is worth noting that the proportion of the population living in rural areas decreased from about 52% in 1940 to 35% in 1971 and to 30% in 1981. On the other hand, the percentage of the population living in urban and semi-urban areas increased from 48% in 1940 to 65% in 1971 and 70% in 1981. In 1981, the population of metropolitan Athens exceeded the total rural population, as it represented 35% of the Greek population, compared to only 15% in 1940.

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

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

2.3 The Twin Deficits, Monetary Instability and External Debt Crises

The ability to access international capital markets was a vital need for the new Greek state right from the beginning. The scarcity of natural resources and the low level of domestic savings meant that there was no other option for financing the necessary current and investment expenditure for the efficient functioning of the state, for national defense and the pursuit of the 'grand idea' and for economic growth and development.[12]

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

In 1824 and 1825, the provisional administration of the Greek revolutionaries concluded the first two international loans, the 'Loans of Independence', in the London market. However, a year later, the administration was unable to service these onerous loans, resulting in the first Greek sovereign 'default' of 1826.[13]

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

For a long time, mainly between 1843 and 1879, when the 'Loans of Independence' and the loans of the Otto Monarchy were finally settled, Greece had no access to external borrowing. The government could only borrow domestically, from the National Bank of Greece (NBG), which was established in 1841 as a hybrid commercial and central bank. However, this required increases in the quantity of banknotes issued by the NBG, which undermined the metallic convertibility of the currency. Combined with the fiscal instability caused by the periodic steep increases in military spending, this led to long periods of monetary instability.

Fiscal and monetary instability resulted in frequent suspensions of the drachma's convertibility and the inability of Greece to participate in either the Latin Monetary Union,

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[12] Parts of this section are based on Alogoskoufis and Lazaretou (1997).

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

the accession agreement to which it had signed in 1867, or in the international gold standard that prevailed internationally after 1879. It also resulted in rises in Greece's government debt.

This is not something peculiar to Greece. When there are significant temporary rises in government expenditure, governments, instead of raising taxes, tend to resort to temporary borrowing and inflationary finance, so as to minimize the economic and political disadvantages of significant hikes in taxes (see Barro 1979). The same happens during recessions. Recessions result in a temporary fall in tax revenues, because of the slowdown in economic activity, and temporary increases in expenditure on unemployment insurance and social protection. Hence, both wars and recessions result in rises in government deficits and debts and, in the case of wars, they result in increases in revenue from money creation as well.[14]

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

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

The fiscal and monetary instability of the interwar period was not confined to Greece. It also characterized the rest of Europe. Greece tried to stabilize its economy again after the mid-1920s, but the international economic crisis of the early 1930s again forced it to abandon the gold-exchange standard that it had adopted in 1928. This happened in 1932 and coincided with the fourth Greek 'default'.

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

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

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

Inflation was tackled in the 1990s following the adoption of a restrictive monetary policy, but fiscal problems were only partially tackled, while the problem of the low international competitiveness of the Greek economy worsened significantly.[15]

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

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

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

In addition, because of the inadequacy of national savings throughout Greece's history, with the exception of the 1960s and the 1970s, periods associated with easy access to international borrowing resulted in excessive foreign borrowing and debt and, eventually, debt crises and defaults.[16]

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

The high external borrowing in foreign currency makes an economy vulnerable if conditions, or even expectations, change in international markets. If international investors start to believe that a country may not be able to continue to service its foreign debt, i.e., that it may 'default', they will stop financing the country bringing about a foreign debt crisis, even if the

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

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

country is in fact solvent. It is the same process that brings about crises in fixed exchange rate regimes. Loans in foreign currency or bonds in foreign currency that are maturing are not renewed, or international investors demand higher returns, causing a rise in the debt service cost of a country in foreign currency. This can precipitate an international debt crisis or a 'default'.[17]

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

All four pre-requisites applied in the case of Greece's international debt crises and defaults, which are summarized in Table 3. The 'defaults' of 1826 and 1844 occurred first because Greece was able to borrow internationally and second because it was effectively insolvent as it lacked the foreign currency earnings with which to service the loans. In addition, the 'loans of independence', due to their extremely unfavorable terms, would have been impossible to service even if Greece's economy was a regular economy and not an economy at war.

On the other hand, the 'defaults' of 1893 and 1932 and the debt crisis of 2010 were not only due to prolonged periods of high current account deficits and large increases in foreign currency debt but were also prompted by international recessions that reduced the demand for Greece's international exports and caused interest rates on Greece's debt to rise. Furthermore, the defaults of 1893, 1932 and the debt crisis of 2010 were associated with Greece's inadequate foreign exchange reserves and, in the case of the latter two, participation in a fixed exchange rate regime.[18]

The first stage of a debt crisis is for international investors (the 'markets') to begin to doubt whether the country concerned will be able to continue servicing its foreign debt. This leads to a reduction in international lending to the country, or worse, a capital flight abroad that reduces foreign exchange reserves and causes interest rates to rise. An external debt crisis leads an economy in a recession, since it will have to reduce its current account deficit by reducing investment and increasing savings. This is the only way to balance the current account and return to external equilibrium. A crisis often leads to a rapid currency

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

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

Table 3
External Debt Crises and Defaults in the History of the Greek Economy

Period of External Borrowing	Debt Crisis - Default	Consequences of the Crisis	Resolution of the Crisis
Independence Loans 1824-1825	Default 1826	Exclusion from International Capital Markets	Final Debt Restructuring 1878
Guaranteed Loans to King Otto 1833	Default 1843	Exclusion from International Capital Markets International Financial Commission 1859	Debt Restructuring 1864
External Borrowing for Re-armament and Infrastructure 1879-1892	Default 1893	Adjustment Program International Financial Audit Commission 1898	Entry to the International Gold Standard 1910
External Borrowing for Refugees and Infrastructure 1926-1931	Default 1932	Abandonment of Gold Exchange Standard Capital Controls	Link with Gold Bloc 1933 Link with Sterling 1936
External Borrowing Before and After Euro Area Participation 1998-2009	Debt Crisis 2010	Troika' and Adjustment Programs 2010-2018 Great Depression	Continuation of Euro Area Participation under Enhanced Surveillance 2018

depreciation, inflation and collapse of the banking system, particularly if banks are also leveraged in foreign currency. Often, after a debt crisis a country is forced to resort to official lending through a program which requires it to follow an adjustment program which usually includes a devaluation of the currency, fiscal adjustment and monetary stabilization in order to balance the current account.

All the above have featured in the periodic debt crises that affected the Greek economy. The 'default' of 1844 was followed by the 'naval blockade' of Piraeus and the establishment of an International Financial Commission which oversaw the re-payment of Greece's restructured debt payments. The 'default' of 1893 was followed by the establishment of an even tighter International Financial Commission which forwarded a new official loan, but also imposed harsh fiscal and monetary adjustment that, at least originally resulted in a recession. The 'default' of 1932 was followed by devaluation, fiscal adjustment, a prolongation of the recession and the imposition of capital controls. The debt crisis of 2010 was followed by official lending and the imposition of three successive adjustment programs, designed and supervised by a 'troika' of representatives from the International Monetary Fund, the European Commission and the European Central Bank. Although they contributed to a correction of the external and fiscal imbalances that characterized the Greek economy, this was at the expense of a 'great depression', that lasted for seven years, between 2010 and 2016.

2.4 The Evolution of Political and Economic Institutions

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

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

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

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

For many years during the 19th and the first part of the 20th century the Greek political system remained oriented towards serving the interests of the farmers, who constituted its main political clientele. However, although universal suffrage had been in place since 1847, elections were often violent and rigged affairs, and clientelism was a major feature of the political system.[19]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The change in regime occurred because the regime of the 1950s and the 1960s had become politically discredited by the dictatorship and, in any case, had reached its limits. The new regime emerged haphazardly following the crisis in Cyprus, the first oil shock and social unrest. It was not the result of a rational cooperative restructuring process by a strong government that sought to maintain the commitment and coordination mechanisms of the previous regime, without the political repression associated with it. The preparation of the economy for the opportunities of EC entry also left a lot to be desired. The new regime largely evolved as the unplanned outcome of a social struggle for income shares among various socioeconomic groups, with democratic governments trying to satisfy conflicting objectives like re-election, growth, redistribution and social peace. The resulting equilibrium was unsatisfactory, but it was sustained for a long time by EC transfers that masked the underlying problems of the economy.[20]

After a decade of incomplete and ineffective macroeconomic adjustment, euro area entry in 2000 initially led to a period of euphoria and a recovery of the Greek economy. This was mainly due to the sharp fall in real interest rates and the extensive increase in external borrowing caused by low interest rates. The rapid accumulation of foreign debt, which was also a result of the low and deteriorating international competitiveness of the Greek economy, led once again, in 2010, to a major external debt crisis, the fifth major 'default' of modern Greece, the memoranda and a modern form of international financial control through the 'troika' of the European Commission, the European Central Bank and the International Monetary Fund.[21]

A number of recent studies have examined the effects of the institutional characteristics of the Greek economy on its economic performance. This work is mainly based on the World Bank Global Governance Indicators. These indicators measure the impact of institutions in areas such as 1. the rule of law, 2. the quality of the regulatory framework, 3. the effectiveness

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

[21] Alogoskoufis (2019, 2021 b) analyses economic developments before and after the euro in more detail.

of governance, 4. the control of corruption, 5. political stability, and 6. representation and citizen participation.

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

Consequently, the quality of the institutions seems to be of great importance for the economic performance of Greece in relation to the other countries of the euro area and to interact positively with its economic performance.[22]

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

2.5 From the Protecting Powers to the Western Alliance and Europe

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

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

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

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

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

Even greater increases have occurred in the population of Greece, due to the territorial expansions, other population inflows, the exchange of populations of the early 1920s and the natural increase of the population. From 720 thousand inhabitants in 1833, Greece in 2019 numbered 10.7 million inhabitants, an increase of about 15 times (1486%).

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

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

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

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

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

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

2.6 Globalization and International Economic and Financial Regimes

The participation of Greece in the process of economic globalization since the 19th century also played an important role for the evolution of the Greek economy.

Greece had no choice but to seek to participate actively in the world economy and to adopt many of the world's trade and monetary institutions and policies. Besides, the protecting powers and especially Britain pushed in this direction. The integration of Greece in the process of globalization, both during the 19th century and in the second half of the 20th century, through its participation in the Bretton Woods system and the European Union had several positive effects on the development of the Greek economy. However, in combination with the economic fiscal and monetary weaknesses of Greece, it also led to significant problems, the main ones of which are related to external debt crises and defaults.

The defaults of the 19th century, the default of 1932 and the debt crisis of 2010 were the result of Greece's attempt to participate in international money and capital markets and the attempt to adopt the rules of the international monetary system, without necessarily meeting the necessary economic and fiscal preconditions. However, developments could have been worse if Greece had chosen autarky and had not attempted to participate actively in the world economy.

3. Conclusions

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

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

This transformation was neither smooth nor automatic. It has been characterized by periods of progress, even 'national triumphs', but also crises and 'national disasters'. The overview of the developments of the Greek state and its economy in the long haul contained in this paper suggests the existence of three major distinct historical circles.

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

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

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

This overview and the interpretation provided, based on the examination of the interactions of ideas and values, social and economic conditions, political and economic institutions and policies, ultimately contains an optimistic message: Despite its difficulties and weaknesses, the alternation of national 'triumphs' with national 'disasters', despite wars and national 'schisms' and economic crises, in each of these three historical cycles Greece has managed to make relatively good use of the available opportunities and the geopolitical and international circumstances to largely achieve its national goals.

What is needed for the future is to secure and improve upon the level of prosperity it has achieved during its third historic cycle, through reforms that will protect democracy, improve the economy and shield its membership of the European Union.

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