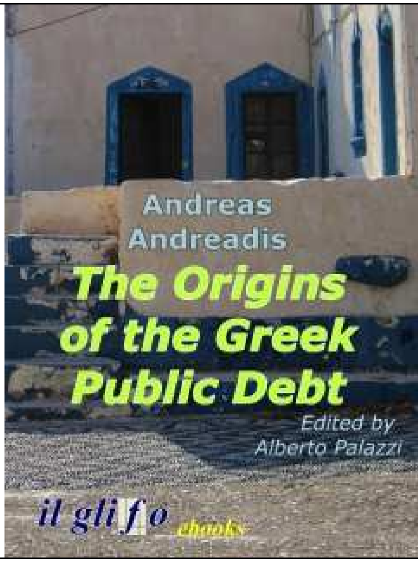
Andreas Andreadis

The Origins of the Greek Public Debt

“une lamentable histoire”

Edited by Alberto Palazzi



Preview

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ΙΣΤΟΡΙΑ ΤΩΝ ΕΘΝΙΚΩΝ ΔΑΝΕΙΩΝ

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Lauréat της εν Παρισίοις Νομικής Σχολής.

ΕΝ ΑΘΗΝΑΙΣ ΤΥΠΟΓΡΑΦΕΙΟΝ “ΕΣΤΙΑ,,
Κ. ΜΑΪΣΝΕΡ ΚΑΙ Ν. ΚΑΡΓΑΔΟΥΡΗ

1904

Editor's Introduction

Yesterday and today

At the end of the winter of 2012, we resurrected a book written in 1904 that tells the story of the Greek debt from its absolute beginning in 1824, translating an essay well-documented and unique, yet forgotten. Andreas Andreadis's book is a unique opportunity: It tells us the story of the development of an unsustainable system of public finance from its cradle. It is a story that we can only read in such detail here, because the many reports and stories of nineteenth-century Greek Independence War that have been written mention the financial aspect of the story only through hints. Thus, given the absence of any archival records, we will see throughout the text the unique sources the author has drawn on to get the details of this story.

In 2012 this book, though more than one hundred years old, is also a modern book in its own way because the situation in which Greece cannot meet its financial commitment has presented itself again. Now we do not know if the new Greek state failure will be addressed in a civil manner by foreigners (those that Andreadis would call the Protecting Powers), or if it will happen more dramatically, in the form of a disordered default. Nor do we know how many years the crisis will drag on yet, nor how and when we will consider it resolved financially, nor what kinds of burdens and mortgages it will leave to the Greek economy. In any case, we can call the outcomes once more "une lamentable histoire," as it was qualified by a French businessman, traveller and philellene, who analyzed with insight and precision the Greek economy back in 1847, and whom we will meet often in this book.

Given the situation today, some — very few — will enrich themselves and many others will lose the game, not so much paying the bill on the enrichment of a few, but due to the impairment of Greek economic development, and due to the eternal depression that follows each stage of the "lamentable histoire." Except this time, the Greek society will take the opportunity to take a step forward in the slow process of liberation from the custom of political patronage and tolerance of tax evasion.

Today as then, the story of Greek public finance has an individual character that distinguishes it, and which makes it a separate chapter: in the nineteenth century as in 2012, when the many bank and state potential insolvencies in the world seem about to be reabsorbed — but not the Greek one.

The financial crises of the first decade of our century have manifold origins: labour low salaries resulting in individuals' propensity to consume on credit; the housing bubble; speculation about complex financial instruments such as derivatives by persons unfit and unable to understand their nature and risks; in some countries, excessive deregulation of banking activities determined by the disregard of the reasons for the existence of complex banking laws developed during the twentieth century; and a strong tendency in public short-sighted and short-term policies, having received consent from public opinion. Faced with this situation in which a context of distinct pressures determined the critical events, the Greek crisis is actually quite straightforward and simple: First, there was a conscious and intentional government deficit policy to stimulate consumption — a policy conceived in such bad faith as to resort to false accounting entries — and there was consensus of society, vitiated by the distribution of income in this model. Then when it came time to repair the situation through net decisions, the social consensus has left the government and moved on to the idea that Greece might have the time and could afford the luxury of unlimited polemics, international and domestic, rather than arrive quickly to drastic choices. This has progressed to the point that in today's newspapers, and perhaps even in the same issue, we can read poll projections that give the 45% of votes to extremist parties willing to abandon the single currency and even the European Union, and polls that say that 75 or 80% of Greek society is well convinced of the need to remedy the situation at all costs, conscious that the abandonment of the European consortium would cost Greece the return to a rudimentary economy. Such answers are not coherent: It is evident that there are now a good number of Greeks who do not know what to think, to the point of giving contradictory answers when questioned on the same day, or more likely who on one hand understand the ruinous implications of the abandonment of Europe, but on the other hand have accumulated so much hatred and contempt against the institutional parties of their country to think now of punishing them by giving the vote to the proponents of the childish and unrealistic denial of the problem.

Today, if things will settle down, it seems that the Greek people will be subject to limitations of sovereignty as they were for the same reason in 1897, when the International Economic Control (Διεθνής Οικονομικός Έλεγχος, ΔΟΕ) was established — an entity that had an office in Athens in which foreign personnel controlled that Greece complied with the conditions necessary to extinguish a bit at the time the loans borrowed by creditor governments, which at that time were England, France, Austria, Germany, Russia and Italy.

It is clear that the solution of the problem, then, was the post-war inflation and the devaluation of all currencies after the world wars. The International Control literally exercised his duties only until the First World War, forcing Greece to accept the imposed conditions, which included the use of certain taxes and public revenue sources to meet its commitments. Between the two wars it had a marginal advisory role, but it also survived the Second World War, and became extinct after the long agony that the timing of international bureaucracy inevitably inflicts to all its institutions: It being at that time totally unnecessary, documents of the British Foreign Office advised the dismantling of the International Control in the early ‘60s, but the final consensus of all involved parts for its termination came only in 1978.

Our author, Andreadis, in 1904 intended to tell the whole story, including the then highly contemporary institution of International Control, which existed in its eighth year while he was writing, but the first volume of the story translated here is the only one that was written. It tells us the two oldest stories: the one of the *Independence Loans* that the Greek provisional government contracted with the private market in London in 1824 and 1825 — without any interference of European Governments — and the one of the reckless entity loan that the government of the new kingdom of Greece contracted after 1832, thereby remaining indebted to the three protecting powers: England, France and Russia.

For many reasons, not the least because it gives us a vivid perception of the dynamics of internal disintegration in society and politics in Greece that the problem produced, it's worth reading the *lamentable histoire* of this part of the story. Nevertheless, it mainly deserves to be read because it affords us the unique opportunity to understand in detail the structure of a phenomenon of financial catastrophe reduced to its skeleton, almost as if we had made a culture in vitro of its germ.

Technical note to understand the book

With regard to monetary units mentioned in the book, it is necessary to remember that a *Franc* throughout the nineteenth century, and until the First World War, was tantamount to a twenty-fifth of a *Pound*, as established by Napoleon. Under the term *écu*, it was intended a five-Francs unit, and five Francs were equivalent to one U.S. dollar in the decimal system. However, in the text we find the expressions *Taler*, *Dollar*, *Spanish Dollar*, *Spanish Piastre*, *Florin*, *Piastre* and *Distele*, which are all synonymous with each other, and which require explanation. In the ancien régime and until the early nineteenth century, the international currency of reference in both Europe and the Ottoman world was the *Spanish Dollar*, or *Piece of eight*, which had many names: in Spain *Peso fuerte*, *Peso duro* or *Dólar español*, *Thaler* in German world and in English *Pillar dollar*, meaning "dollar of the Pillars of Hercules," and therefore in Greek *Distele* ("two-columns"). This coin for a long time was tantamount to a fifth of a Pound, so that the Spanish dollar could be considered equivalent to a French écu when we are only interested in orders of magnitude; the ratio cannot be indicated exactly because the title and the weight of metal changed over time as the exchange rate actually practiced by bankers and money changers. This Spanish currency from seventeenth century was taken as a reference base also for the Ottoman Piastre, whose name in Turkish was *Kuruş* and in Greek *Gròsi*, and that was the monetary unit used in the Greek

Independence War until the establishment of the national currency at the end of it. However, since the Turkish currency during the first half of the nineteenth century was subjected to a continuous depreciation due to the coining of *Kuruş*'s having title and weight increasingly reduced (until the Sublime Porte did not supply a currency reform in 1844), it is difficult to say exactly how the Gròsi actually circulating in Greece in the 1820s were exchanged, as mentioned in the text. Certainly their value was much less than the value of a écu, and probably it was a sixtieth of a Pound; it was less than one-tenth of the nominal Spanish Dollar — this is deduced from Chapter A.1 of our text, where it is reported that according to a contemporary writer, Thomas Gordon, 5,587,000 Piastres amounted to 93,000 Pounds in 1825[1]. The value of a Piastre estimated in this way gives rise to probable values in the context of the book.

As for the national currency of Greece, between 1828 and 1832 the new state adopted the Phoenix as its currency (φοίνιξ), of unstable value and difficult to accept as payment, but nominally equal to one-sixth of a Spanish Dollar, so it took 1.1168 Phoenices to buy a Franc, and 28.12 for a Pound. From this it seems clear that a Piastre, or Grosi, circulating at the time of Independence should be equivalent to 5.37 Francs, but it is not so because the Phoenix was defined on the basis of equivalence with a theoretical Spanish Dollar or Kuruş, not with Turkish Piastres actually circulating at the time, which were worth much less.

The Bavarian monarchy changed its name to Phoenix, calling it Drachma, but did not change its definition based on the nominal Spanish Dollar and on the theoretical value of the Kuruş. In 1868, the New Drachma was introduced, and this was made equal to one Franc (and even to an Italian Lira, which was always defined on the basis of the French Franc).

As for the purchasing power of this money, we know that over the generations it has become increasingly difficult to determine the

[1]Andreadis's quote is accurate and easily verifiable, because Gordon's book is available in PDF through *Google books*.

conversion rate between currencies, as the relationship between the prices of different types of goods and services has changed over time following the structural changes of production techniques. However, to get an idea of the absolute values mentioned in the book, we can remember that with a Franc at the time of Hugo and Balzac one could, in France, eat a small meal, and with 5 or 10 cents one could send a letter, so one Franc might be considered equivalent to ten Euro today, and one Pound equivalent to 250 Euro. This was in France or England; the value of money in Greece was immense: Consider that in chapter B.3.2 of this book an annual pension of twenty Drachmas is discussed, along with another of less than ten, and only the latter is qualified by the author as insignificant.

Andreadis's text

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History of public debt (1904) – Introduction

"C'est une lamentable histoire que celle de la dette hellénique" — "It is a mournful story, that of Greek debts": With these words, Casimir Leconte began his study of the Greek government debt fifty-seven years ago. This discussion was part of his *Étude Économique de la Grèce*[2] of 1847, and that is the most complete work that has been written so far on the economy of our country, written by a man who had lived in it for two years. Leconte talks mainly about the Sixty Million Loan contracted after the Independence, while loans contracted during the Independence War are just mentioned in hints, because at that time they were neither recognized nor accounted in the budget, as we shall discuss in detail.

After almost six decades, those who undertake to study this subject can only subscribe once again to that expression, which rather could be blamed for excessive moderation. The history of the Greek national debt is the story of a failure, but it is necessary that we write quite frankly the story of the failures of a nation no less than we write of its successes.

Moreover, in our present world where the sovereign debt is one of the most important problems for Governments, a scholar of financial matters certainly cannot neglect that important branch of finance that is the public one[3]. Therefore, after much research done on the topic of the public debt of Greece[4], the idea of this study as a self-sufficient work came into my mind as a result of the tragic events of

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[2] At pages 174-187.

[3] See my *Introduction to the teaching of Science of Finance*, page 30.

[4] Public debts have been the subject of my classes in the second half of the previous academic year. In the first semester, I dealt with the general theory of debt, while in the year 1902-1903 I studied the general principles of finance, and of government spending and the tax system in force in our country. A small part of these courses is published in French under the title: *L'impôt direct en Grèce et son évolution.*

the summer of 1897. Since then, I have never ceased to gather materials, and thanks to a stay in England, I was able to draw on a wealth of information from a private collection of documents, a unique opportunity to bring order into the great mass of existing data pertaining to Eastern affairs.

The difficulties of the work were evident: more than anything else, the lack of official publications, and previous studies that were minimally detailed and accurate.

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Conclusion of the editor (March 2012)

At this point, Andreadis summarized in another table the numbers now well known, and introduced with few words the rest of the narrative — which, however, was never written.

The story, in brief, is this. For the next twenty years following the agreements of 1878, Greece adopted a political system similar to a bipolar one, in which Trikoupis alternated in power several times with Diligiannis. Trikoupis was a Westernizing reformer, anxious to consolidate Greece and develop it economically and politically, whereas Diligiannis, the scion of a family of Peloponnesian notables, was a champion of "Great Greece," a proponent of irredentist adventures and unable to go beyond the simple negation of Trikoupis' reforms. Thus, he declared expressly that its policy was being against anything that Trikoupis was favourable.

With the support of business and merchant classes, Trikoupis engaged in a not entirely unsuccessful effort to develop the country's economy. We know that before 1878, it had been impossible for Greece to raise funds in the international market; after the agreement of that year for the settlement of old debts, Trikoupis's program was financed by borrowing abroad and by increasing the tax revenue through a more rigorous tax collection, raising the tax burden mainly through indirect taxes, the increase of customs duties, and the exploitation of state monopolies, such as salt and matches. The agreements for the settlement of old debts, coupled with Trikoupis's moderation, inspired some confidence in foreign investors, and between 1879 and 1890 six contracts were signed for foreign loans with a nominal value of 630 million Drachmas, although the required interest, given that Greece was not yet considered entirely reliable, was 30%, resulting in a huge weight of interests in the state budget: Around 1887, 40% of the annual budget was allocated to repay interest and amortization.

Between 1880 and 1890, modest economic progress was recorded, and Greece was able to build a minimal rail and telegraph network; the total tonnage of steam ships flying the Greek flag went from

8241 tons in 1821 to 144,975 in 1895. Wealthy Greeks, often residing abroad, began to acquire a large number of old steam ships equipped with sailors of their islands and giving birth to a twentieth-century tradition in which Greece would have one the largest commercial fleets in the world. Many of the positive results obtained by Trikoupis, however, were demolished by the policy of Diligiannis and his demagogic exploitation of Greek irredentism. When, for example, Bulgaria annexed Eastern Rumelia in 1885, Greece called for territorial compensation, and Diligiannis ordered a general mobilization. However, the following year, after the imposition of the blockade by the Powers, Greece was forced to demobilize. The hasty mobilization proclaimed by Diligiannis had only resulted in a huge cost to the public finance that weighed on the next government of Trikoupis, who, in an attempt to bring order to the finances of the country and to reconstruct its international economic credibility, was forced to increase taxes again and thus to restore the strength of the demagogic populism of Diligiannis.

During the last Trikoupis Government (1892-95), the Greek financial situation became desperate. The collapse of the price of raisins on the international market revealed the essential fragility of an economy based almost exclusively on a very limited number of exported goods. The declining value of the Drachma caused the growth of interest on foreign debts that were paid in gold, and came to absorb up to half of the total revenues of the state. In 1893, the year of greatest crisis, imports reached 119,306,000 Francs, while exports did not surpass 82,261,000 Francs. Trikoupis was forced to declare a default, reducing interest payments on foreign loans by 70%, while revenue for the repayment of the debts was channelled directly into state coffers. This was followed by the international collapse of Greek credit, as evidenced by the fact that coupons to 5% of the loan of 1881, at the beginning of 1883 were worth 76 percent of nominal value, and in December of that year had fallen to 30%.

The economic difficulties associated with the financial crash of 1893 and the austerity measures imposed by Trikoupis made Diligiannis's victory in the next election in 1895 almost inevitable. Trikoupis consequently retired to Paris, where he died the following year, saving himself from witnessing the humiliating defeat of Greece by the Turks in 1897. The great crisis of that year originated with one of the recurrent Cretan insurrections, having broken out in 1895. The rebels were supported by the radical nationalist *Ethniki Eteria*, or National Society, although at first, Diligiannis refused the official backing of the government, in view of the fact that the Powers had sent a deterrence fleet in the island.

But in early 1897, giving way to popular interventionism and to King George's enthusiasm for the annexation of the island, Diligiannis sent ships and troops into Crete. After rejecting a proposal of autonomy of the island under the Ottoman sovereignty in March of 1897, and encouraged by the inability of the Powers to take concerted action to cool the crisis, Diligiannis ordered general mobilization. In the following month, the hostilities broke out in Thessaly, but the Greek army was unable to resist the invigorated Turkish one, and after a month suffered a final overwhelming defeat. The contrast between the ambitions and the modest military possibilities of Greece were demonstrated quite clearly: It was evident that Greece alone could never fight against the Ottoman Empire and hope to win.

Although Greece had suffered a military defeat, the terms of the peace treaty were relatively mild, thanks to the influence of the Powers, which, at least on this occasion, proved to be benign. Greece was forced to pay a war indemnity of four million Turkish liras and to give a series of insignificant border adjustments. But the most humiliating arrangement of the peace treaty was the establishment of the International Financial Control Commission, Διεθνής Οικονομικός Έλεγχος or ΔΟΕ, with British, French, Russian, German, Austro-Hungarian and Italian representatives, who were in charge of supervising the payment of interest on large external debts and who confiscated revenues from state monopolies of salt, kerosene, matches, and playing cards, as well as from the duties on tobacco and cigarette paper, in addition to the stamp duties and taxes collected by the customs of Piraeus Harbour, the biggest in the

Kingdom[5].

The commission exercised its duties until the First World War, forcing Greece to comply with the conditions imposed. Then it had a marginal advisory role, but also survived the Second World War, after which the British Foreign Office considered it useless and advised its dismantling in the early ’60s, but the consent of all parties for the termination took place only in 1978.

Do we need a category of interpretation?

A newspaper article of last February, signed by Paul Krugman and analyzing the present recession, assigned responsibility of it to the new kind of *gold standard* established by the strength and stability of the single European currency, and has challenged the German interpretation of the present European economic crisis, an interpretation that overstates the role of the government’s fiscal irresponsibility, noting that “this view seems to adapt to Greece, but to no other country.”[6]

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[5] For this synthesis of the story between 1878 and 1897, see Clogg, pages 91-94 (Editor’s note).

[6] Paul Krugman, “La vera malattia che piega l’Europa”, *La Repubblica*, 28 February 2012.

Back cover

This is a story written in 1904, which tells the vicissitudes of the Greek public debt since its own absolute beginning in 1824. At present this book, more than one hundred years old, is also a modern book, in its own way: We do not know today if the new Greek state failure will be driven civilly by the International Banking System and the European Union, or if it will happen more dramatically, in the form of disordered default. In any case, we can call the story once more “une lamentable histoire,” as was qualified by a French businessman, who conducted research about the Greek economy with insight and precision back in 1847.

Our author, Andreadis, intended to tell us the whole story, including the one of the institution of the International Control in 1897, but the first volume translated here was then the only one, and it tells us about two ancient events: the *Independence Loans* that the provisional Greek Government contracted with the private market in London in 1824 and 1825, and the loan of an ill-advised entity that the Government of the new state contracted after 1832, remaining indebted to the Governments of the three Protecting Powers: England, France and Russia. The *lamentable histoire* of this prehistoric part of the story gives us the unique opportunity to understand the structure of a phenomenon of financial catastrophe reduced to its skeleton, almost as if we had been able to make a culture *in vitro* of it.

Andreas Andreadis

Andreas Andreadis (1876 - 1935), a native of Corfu, studied law and economics in Paris and London, then taught economics and public finance at the University of Athens. He was an adviser of Eleftherios Venizelos, but he did not want to have political responsibilities, although on several occasions the ministries of Foreign Affairs and Economy had been offered him. He wrote about economic history: *History of the Bank of England* (1904), *Economic History of Greece from antiquity to modern times* (1918), and was popular for a long time as theatre critic under the pseudonym *Alk*.