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Money, Sovereignty and the modern Greek state

Introduction

Inspired by the examples of the American and French revolutions, the Greek people rose up against the Ottoman Empire in 1821. They endured years of war and suffering to win their own sovereign state.

This is a story that every Greek knows. It is perhaps not surprising, then, that in the recent financial crisis, when the Troika of the IMF, the European Commission and the European Central Bank, dictated terms to Greece, protestors marched in Athens.

When calls came from Berlin for a commissioner to supervise the country's finances, Minister Evangelos Venizelos said the proposal ignored "some key historical lessons"¹. Calls for Greece to leave the European Monetary Union – the euro – were met with indignation.

Mr Venizelos did not elaborate on the relevant "key historical lessons", but Greece has seen financial crises and foreign interventions before. Its sovereignty has been compromised before. Greece has even been previously expelled from a monetary union.

That these things have happened before is not a reason to be unconcerned about the present crisis, but it is always better to see events in perspective and be open to the possibility that something might be learnt from history.

Greece in the 19th Century

Great power intervention in the affairs of modern Greece began during the War of Independence. Indeed, Greeks invited it with the Act of Submission, a petition to place insurgent Greece under the protection of Great Britain. It was sponsored by the English Party in Greece who believed that Britain's naval presence in the Mediterranean made her the obvious great power patron for Greece ².

Although the petition was rejected, there did begin at this time an unequal relationship with Britain that would endure for 120 years, sometimes to Greece's benefit and sometimes to her cost.

Greece's finances during the War of Independence were chaotic. Two loans to the provisional Greek government were raised on the London Stock Exchange. It was expensive money and according to the historian George Finlay a lot was wasted ³. The Greek government was in default in the repayment of these loans for more than half a century.

Greece became a sovereign state because of foreign intervention. It was made possible when British, French and Russian warships destroyed the Turco-Egyptian fleet at Navarino; and when Russia went to war with the Ottoman Empire the following year. The British Foreign Secretary and the ambassadors of France and Russia, met often to define and bring into existence the new Greek state. A French army brought order to the Peloponnese ⁴.

A constitution framed in 1827 declared that sovereignty inhered in the nation, from which all power derived ⁵.

The assassination of Capodistrias, the first Governor of Greece, raised the question of its future rule. Britain feared that a tributary Greek state might fall under Russian influence and so favoured a fully sovereign Greece. Here we can see the beginning of Britain's efforts through diplomacy and war to contain Russia, a geo-political strategy that extended far beyond Greece and became known as "the Great Game". It continues today. Its more recent manifestations include the Cold War and NATO.

The Powers agreed that the new Greek state should be a monarchy. They chose Otto, a Bavarian Prince, to be its king. The new "monarchical and independent state" was placed under the guarantee of these "Protecting Powers" who also helped to finance it. A three-man Regency ruled Greece until Otto came of age, a regime that has been termed the 'Bavarokratia'.

Interestingly, the three Regents are described by historian Thomas Gallant as a Troika ⁶.

Under Otto, the Powers forced cuts in the civil service and the army in their efforts to secure repayment of the loans they guaranteed. They threatened to take direct financial control ⁷. In 1857 they set up a Commission to inquire into Greece's finances. Intervention was resented by the Greeks then, no less than today.

A pattern was set for persistent great power intervention in Greek affairs. In the case of Britain this extended to gunboat diplomacy, beginning in 1850 when the British Navy blockaded Athens over the payment of £8000 worth of compensation to Don Pacifico, a British subject resident in Greece ⁸.

The Powers selected King Otto's successor – a young prince from Denmark. A popular plebiscite was allowed in Greece in which this Danish prince garnered just a handful of votes out of a possible 241,000 – less even than the votes for a republic – yet his accession to the throne as George I was confirmed ⁹.

Under a new constitution adopted in 1864 Greece was termed a “crowned democracy” and all power was declared to derive from the people. In theory the people were sovereign ¹⁰.

Greek politics in the 19th century was highly personal with parties forming around powerful personalities rather than platforms. It was also dynastic: a forebear who had fought in the War of Independence was an asset to a political career. Historian Richard Clogg writes: “The state and its attendant offices were prizes to be captured by rival cliques of politicians ... there was little sense of collective loyalty to, or trust in, the state or its institutions. Voters expected those for whom they had voted to help them to secure employment” ¹¹. Clogg also mentions that Greek politics at this time were distorted by “the lavish dispensation of favours”, by “open bribery” and by “fraud” ¹². These charges have some resonance in today's crisis.

After more than half a century as a defaulting borrower, Greece at last regularised its foreign debts in 1878. The lenders took what today would be called a “haircut” – the agreed settlement sum of £1.2 million was much less than the nominal capital and accumulated interest ¹³.

In the final decades of the 19th century, the moderate Trikoupis inspired some confidence, and Greece was able to raise loans in the in

ternational money markets. However, the creditors made the Government pre-commit specific revenues from customs and state monopolies to debt repayment¹⁴. Greece was still seen as a poor risk, so the nominal amounts of the loans were discounted by up to 30%.¹⁵

This was a time of some economic progress. Railways and telegraph lines were built, merchant shipping increased and the Corinth Canal was opened.¹⁶

In the 1890s there was a crash in the price of currants, Greece's major export crop. Greece was in effect forced to declare bankruptcy. Emigration increased enormously at this time. From 1890 to 1914 some 350,000 Greeks left. Most went to the USA and their remittances home helped Greece's balance of payments¹⁷.

Greece blundered into a disastrous war with Turkey in 1897. The peace terms were moderate due largely to the influence of the Powers, but again there was foreign intervention in Greece's affairs. An International Financial Control Commission was established to oversee the repayment of Greece's external debts. This Commission took direct control of specified state revenues. Members of the Greek parliament protested that the Commission effectively suspended the country's independence.¹⁸

The Latin Monetary Union

Before leaving the 19th century I will mention Greece's involvement in an earlier European monetary union.

In 1865, France, Belgium, Italy, and Switzerland formed the Latin Monetary Union and agreed to mint their national currencies at a standard weight of silver or gold and make them freely interchangeable. The original four nations were joined by Greece and Spain in 1868, and some other countries joined later.

The Latin Monetary Union allowed a Greek trader, for example, to accept Italian lire for his goods with confidence that they could be converted back to a comparable amount of drachmas. As well, the gold and silver coins of each country were made legal tender throughout the Union.

Greece's weak economy led Greek governments to reduce the amount of gold in drachma coins in violation of the Union agreement. Greece was expelled from the Latin Monetary Union in 1908. It was readmitted in 1910, but by then the Union was nearing the end of its life¹⁹.

Greece in the early 20th Century

The early years of the 20th century saw the rise of Eleftherios Venizelos, an able reformer and westerniser. Greece enjoyed a brief belle époque. There was a degree of political unity which contributed to success in the Balkan Wars and the realisation of a large part of the Megali Idea.

Greece almost ceased to be a sovereign state during the First World War due to the interventions of the Entente or allied powers. Her neutral status under King Constantine was disregarded. Control of the posts and telegraphs was seized. Ambassadors unfriendly to the Allies were forced out of the country. Athens was at one point invaded by Allied troops and Thessaloniki was occupied. Greek ports were blockaded by British and French warships. The Ethnikos Dichasmos or National Schism, produced by the War, saw purges by both Royalists and Venizelists of their opponents that embittered Greek politics for decades. The Allies promoted an alternative government led by Eleftherios Venizelos and eventually forced Constantine from the throne ²⁰.

When Constantine returned in 1920, the Powers cut Greece off from international money markets. Tens of millions of pounds in credit in support of Greece's effort to subdue the Turkish Nationalists, was withdrawn. Money to continue the war in Asia Minor had to be extracted from the Greek people by means of a forced loan ²¹.

Greece was soon mired in the economic crisis of the 1930s. Venizelos complained that the nation would have been solvent if the 40 million gold pounds of credit promised by the Allies had not been denied when Constantine returned ²².

When the world economic depression was at its height, agricultural exports, emigrant remittances and receipts from shipping all fell. Greece had raised loans on international markets to cope with a million refugees from Asia Minor and about two thirds of the state budget went in servicing foreign debt. The result was that Greece defaulted on her interest payments as she had done in 1893. The country slid into dictatorship under the rule of Metaxas ²³.

Greece lost its sovereignty during the Second World War. A quisling government was installed by the German and Italian occupiers and the country was blockaded by the British Navy.

When George Papandreou and his government of national unity landed in Greece in October 1944, there was enormous inflation. Gold sovereigns shipped into Greece by Britain to fund the resistance were the only usable currency. One sovereign was worth 170 trillion drachmas. British forces effectively ran the Greek government. A British Economic and Financial Mission sought to assist in post war reconstruction, but Britain could not sustain the effort ²⁴.

In March 1947 the Truman Doctrine for containing the spread of Soviet communism was declared in the USA. Greece became a front line state in the Cold War. An American Mission of Aid to Greece (AMAG) was established. Between 1947 and 1950 over \$1.2 billion in aid was granted, most of it directed to defeating the communist forces in the Greek Civil War. AMAG officials had the power to veto Greek government decisions. AMAG chief, Elliot Griswold, was described as the most powerful man in Greece. AMAG was close to being a shadow government and some have termed this period the "Amerikanikokratia" ²⁵.

There was a flagrant intervention in domestic politics when the US Ambassador advocated a change in the electoral system, backed by a veiled threat of aid cuts. The Right, in the form of Papagos' Greek Rally, won a huge majority in the 1952 election with the help of the new system of simple majority elections. Conservative governments ruled Greece for eleven years and the foundations were laid for a free enterprise and consumer society ²⁶.

By the early 1960s, Greece's exports of manufactured goods exceeded agricultural exports for the first time. Tourism was helping to correct Greece's chronic imbalance of payments as were remittances from Greek emigrant workers in West Germany and Australia ²⁷.

In the 1960s, the storing of nuclear weapons at US bases in Greece questioned the nation's sovereignty and became a major political issue. Soviet leader Nikita Khrushchev inflamed the debate with his threat to blast the Acropolis out of existence ²⁸.

A period of instability began which saw the rise of an extreme right-wing 'para-state', the fall of George Papandreou's Centre Union government, the Dictatorship of the Colonels and the end of the Greek monarchy. But Greece came under no great pressure from Europe due to US influence. Greece was important to the USA at this time as the USSR was building up its Mediterranean fleet ²⁹.

US and particularly CIA involvement in the regime of the Colonels, followed by the Turkish invasion of Cyprus, alienated many Greeks. After the fall of the Colonels the status of the four American bases in Greece was resolved by the Karamanlis government. Henceforth they would be Greek installations with a Greek commander and not able to be used for war purposes without the express consent of the Greek government³⁰.

The idea of state sovereignty

A brief examination of the idea of state sovereignty is useful at this point.

The central idea of a 'sovereign state' is that of a monopoly on the legitimate use of violence, within a particular territory. This idea dates from the Peace of Westphalia, a series of treaties made in 1648 which brought to an end the Thirty years War and the even longer war Between Spain and Holland. These treaties ushered in a new political order in Europe in which interference within the territory of a sovereign was no longer to be contemplated³¹.

However, over the course of the 20th century, Westphalian sovereignty has tended to be dismissed as "an illusion"³², mere 'magic'³³ and "largely without basis"³⁴.

One writer has said that the attributes of sovereignty have been violated from the beginning of modern sovereignty discourse and continue to be violated. There has never been a time when they were universally honoured³⁵.

During the 20th century a new discourse developed around "pooled sovereignty" as exemplified by the European Union, "shared sovereignty" between territorial state and international bodies, and of "supranational regional regimes"³⁶.

The emergence of the European Union (EU) has been described as "a particularly flagrant violation of Westphalian national sovereignty as it has involved the development of powerful authority structures operating outside national territorial boundaries"³⁷.

Some see dangers in the erosion of state sovereignty. The former World Bank chief economist, and Nobel Prize-winner, Joseph Stiglitz, suggests that international bodies such as the World Trade Organization (WTO),

the World Bank and the International Monetary Fund (IMF) have “seized power”³⁸. Stiglitz states:

“Countries are effectively told that if they don’t follow certain conditions, the capital markets or the IMF will refuse to lend them money. They are basically forced to give up part of their sovereignty, to let capricious capital markets, including the speculators whose concerns are short-term, rather than long-term growth of the country and the improvement of living standards, ‘discipline’ them, telling them what they should and should not do”³⁹.

Stiglitz also suggests that loss of sovereignty may threaten national cultures. He characterises a globalised world as one that accepts the dictum, “If McDonald’s triumphs, so be it.” In identifying the importance of the sovereign state for national culture, Stiglitz has a point. Wars are fought over culture, and nations that lack a sovereign state, like the Kurds and the Basques, show much interest in acquiring one⁴⁰.

What is the European Union?

The EU is the only clear example of a supranational regional regime, and as suprastate regimes are thought to be the way of the future, it has attracted much scholarly attention⁴¹.

A long line of case decisions by the European Court of Justice fused three separate European treaties and communities into one. This European Community took the title of the European Union at the end of 1993, as a result of the Treaty of Maastricht⁴².

There has been much debate about the nature of the EU. The members agreed at Maastricht in 1992 to call it “an ever closer union”. Some scholars have declared it to be “a polity” although usually qualifying the term: “contested polity”, “multi-level polity”, “compound polity”⁴³ and “a nascent federated polity”⁴⁴.

EU law is now able to place limits on the treaty-making powers of member states. The EU speaks for its member states in WTO negotiations and other international forums. Topics covered by EU treaties include competition, intellectual and commercial property, public procurement, state aid, telecommunications, banking, financial services, company accounts and taxes, indirect taxation, technical rules and standards, consumer protection, health and safety, transport, environment, research and development, social welfare, education and even political participation⁴⁵.

Greece and the European Union

Greek governments in the 1950s were wary of integration with Europe. They saw that in the less developed states growth needed to precede union. A Greek government 'White Book' of 1959 expressed concern that if this did not happen there would be a widening of the gap between rich and poor countries which "would lead to the political disintegration of Europe"⁴⁶.

From the start Greece saw the need for economic convergence. Greece made definite proposals to achieve this: a European Investment Bank and a Readjustment and Development Fund to finance infrastructure works in the less developed countries⁴⁷.

But Greece also feared the exclusion of less developed countries from a united Europe⁴⁸. Greece was vulnerable as it shared borders with three communist countries and 25% of its exports went to the eastern bloc. The communist model was able to be presented in this period as a successful alternative to capitalism⁴⁹.

The Prime Minister, Constantine Karamanlis, was a Macedonian Greek, and sensitive to Slav-communist designs on Macedonia and Thrace. In 1958 the United Democratic Left Party, widely regarded as a front for the banned Greek Communist Party, became the official Opposition. Association with the European Economic Community (EEC) was seen as a way of lessening the communist threat to Greece⁵⁰. It would divert Greece's trade with the eastern bloc to western markets and reinforce bonds with NATO allies. The EEC was seen as an economic manifestation of NATO. Association with the EEC was also seen as a way to spur Greece to modernise its industry and meet the challenge of competition⁵¹.

The Left on the other hand feared Greece could be overrun by foreign monopolies, that industry would collapse without protection, and that agriculture would not compete. The Left predicted that Greece would be "a drawer of water and hewer of wood, serving the west Europeans as a source of raw materials and as a market for their products"⁵².

Greece's Association Agreement with the EEC led to tariff reductions that harmed its economy. The lower tariffs hurt Greece's industry and its agriculture was denied the subsidies available to EEC member states⁵³.

However, by the 1970s the EEC was forming into a European union and potentially a counter to the two superpowers. This made it attractive to Greeks, many of whom had become decidedly anti-American after US and

CIA involvement in the dictatorship of the Colonels, and US and NATO tolerance of Turkish aggression, culminating in the Cyprus invasion. Joining Europe was seen by the Right and Centre as guaranteeing the recent return to democracy and ensuring political stability. Economic considerations took second place.

The Left on the other hand saw the EEC as “The other face of NATO”⁵⁴ and a junior partner to the USA. It saw Greece as:

“... a peripheral country in the world capitalist system ... its integration into the European Community of developed ‘core’ countries could only take place on unequal terms, resulting in a distorted development pattern for Greece. Thus only national independence, defined as non-alignment, would permit balanced growth and safeguard democracy”⁵⁵.

Greek accession was accepted in Brussels on primarily political grounds: to safeguard Greece’s democracy; as a “political responsibility”; and because refusing it would be a denial of the principles on which the European Community was founded⁵⁶.

Karamanlis pushed through Greece’s application, arguing that the country was disadvantaged by its Association agreement with the EU and this could only be resolved by accession. The role of Karamanlis in Greece’s entry to the EC was decisive.

Greece had “for centuries, as part of the Byzantine and Ottoman Empires and under the influence of the Orthodox Church, belonged to a political and cultural world that was essentially non-western. PASOK’s call for national independence and ‘Greece for the Greeks’ resonated against New Democracy’s slogan: ‘We belong to the West’ “⁵⁷.

Greece became a full member of the EC on 1 Jan 1981. In government PASOK moderated its stance on the EC. Even before this its leader, Andreas Papandreou, had sought to satisfy his political following with rhetoric, attacking the government for surrendering national sovereignty without a referendum, and complaining that crucial economic decisions would now be taken in Brussels ... “to make the poor poorer, and the rich richer”⁵⁸.

PASOK nevertheless correctly identified the fundamental division within the EC, between the “core” of developed northern countries and the under-developed southern “periphery”. It saw that as a peripheral economy, Greece could not compete. When it won office, PASOK sought increased transfers of resources to the less developed states⁵⁹.

The EC did allow more resources to flow to Greece under its Integrated Mediterranean Programs⁶⁰. At this point PASOK ceased to demand a Greek exit from the EC, stating that the costs of withdrawal outweighed the benefits⁶¹. An optimistic view was taken of the EC. It was seen as potentially evolving into a “Europe of the peoples”. This hope is yet to be realised as laws and policies emanating from Brussels continue to suffer from a lack of democratic legitimacy⁶².

After the major political groupings in Greece agreed on Greece’s place in Europe, stagnation seems to have set in. The traditional Greek politics of highly personal, patron - client relationships, and distrust of the state and its institutions, made reform difficult. The Greek leadership did not have the stomach for it. After Maastricht, the EU was distracted by the absorption of former eastern bloc countries and by the unification of the two Germanys.

In government, PASOK did resist changes to voting that might weaken the veto power of small states, predicting a “two-speed Europe in which the powerful and affluent will rule and make decisions”.

Decades later, in 2011, it seemed as if this prediction had come true, as television audiences around the world watched Merkel of Germany and Sarkozy of France – popularly termed Merkozy – addressing joint press conferences as the de facto leaders of Europe.

Conclusion

It can be seen that in its 180 year history, Greece’s sovereignty has often been compromised, that a sovereign debt crisis is nothing new in the history of the modern Greek state, and that Greece has already ceded a substantial part of its sovereignty to the European Union.

Security was the overriding motivation for Greece’s entry to the European Union. There were early misgivings by both sides of Greek politics as to the effects on Greece’s sovereignty and economic competitiveness. The concerns about Greece’s inability to compete were shared in Brussels. Some action was taken to address Greece’s problems, and steps were taken towards economic convergence, but not enough was done, either in Brussels or in Athens. The problems were magnified with Greece’s adoption of the euro.

It remains to be seen whether Europe can make the difficult adjustments needed to achieve the “ever closer union” contemplated at Maastricht in 1992.

Notes

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