The Euro (Greek) tragedy or Europe’s destiny? Economic, historical and legal perspectives on the common currency

Bayreuth 11-12 January 2012

The historical analogy of the 1920's-1930's to the present Crisis in Greece

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Introduction

Greek tragedy is deeply embedded into the Greek culture. It is a genre of strict and highly stylized ancient drama. It had and continues to have a wide scope, draws on dominant myths and was/is imbued with ethical values and didactic purpose. It was/is not meant for entertainment but rather for highlighting (or imparting) the importance of virtue, discipline, heroism, critical ability and respect for dialogue and the law. All these are notions associated with the general good (welfare) and defense of society, with the functionality of respect for civic rights and social justice. It includes, a strong critique, sometimes latent, but usually quite direct against all abuse of power by rulers at whatever level, encapsulated in the concept of hubris. Abuse of powers is equated with corruption and when this happens, the integrity of society (any society freely constituted by members with equal rights, i.e. democracy) is threatened.
It is not difficult to transfer such an image to present day Europe and argue that the wrong doing of greedy financiers in collusion with incompetent leaders and politicians (sometimes also neglectful technocrats), supported by dubious agents of financial appraisal like S&P, etc. is a form of abuse of power and, therefore, disaster is a very probable if not fully predictable outcome. The question then becomes, what is to be done? When there is an impasse like in most Greek tragedies, catharsis comes in the form of severe punishment, or sometimes in the form of heroic sacrifice, but also in the form of a deus ex machina who intervenes to redress balance and restore moral order. So that, after a performance of ancient drama, the spectator usually leaves the theater wiser, and satisfied, confident that justice is done and the threat of disaster is staved off. But, are we really only spectators today? Unfortunately, we rather deal with real culprits and victims, while widespread corruption and abuse of power have become commonplace. And yet, often the situation shown by the media and many ‘analysts’ is turned on its head and the vision becomes distorted. It would help, therefore, if we reflect on what lessons history might offer us.

**The situation in 1929-1932**

My paper draws largely on recent work concerning the interwar period, more specifically the 1929-32 years and the impact of the international economic crisis and great depression in Greece. This was the time when drastic changes were occurring in Central and South East Europe due to the new post First World War radical changes both geopolitically and socially. Not only new nation-states emerged, but social revolutions occurred, changing the world balance of power and peoples’ perceptions. It was also the time that economics was further separated from politics, economic diplomacy increased its status and new instruments and institutions of economic and monetary policy in Western
Europe became the expression of orthodoxy. Existing central banks adjusted their structure and policy, while new ones appeared in all new states created out of the disintegration of the Habsburg Empire. Their policy was shaped within the framework of the return of the European states to the gold standard (gold exchange standard), with Britain initiating the move in 1925. The Bank of Greece followed the new rule and, founded in 1927, was a central bank wholly autonomous from political power. The First World War was so traumatic that the purpose of the new international order was to maintain peace by curbing imperialism, and basically containing any future German ambitions, while the decision to return to the gold standard (gold exchange standard) was to allow trade expansion through the maintenance of monetary stability, which would contribute to the post-war reconstruction. Although, on economic grounds, criticism was expressed against the harsh terms imposed on Germany policy makers ignored it.\footnote{The most consistent thesis at the time was criticism expressed by J. M. Keynes. In the Peace Congress, against harsh reparation demands made on Germany. His criticism, however, was}

Central Banks were one type of financial institutions, the other one being novel international wide-scope supervisory agencies and organisations, headed by the League of Nations and its special committees. Their main concern was to deal with European reconstruction not only in terms of material war damage but also in terms of the massive migration movement of refugees and the first in modern history obligatory exchanges of population.

In most countries, postwar conditions which allowed the crisis to get out of hand had been created as one country after another rearmed and was drawn into the conflict. Inflation had gotten out of hand and the gold standard had been abolished. Perhaps the case of Germany between the
years 1920-23 was the most striking as hyperinflation, political instability, foreign occupation of national territory, and political strife between Left and Right had created a highly explosive set up. Resources required for European reconstruction were nevertheless expected to come from German reparations and credits from the USA, the latter being rather unwilling to finance the recovery of Europe.

**Greece in distress**

Greece was not a very different case. The situation got out of hand even earlier (1916) with extreme polarisation and violence (the term used for the deep vertical cleavage in Greek society being ‘dichasmos’) between the Liberals (republicans) and the Monarchists, while the economy which had been redressed by 1914, after the settlement of the debt in 1898 and the imposition of foreign financial supervision, began a course of derailment. Dichasmos reappeared in 1920, when Liberals under Venizelos lost the election. The new royalist government decided to escalate the Asia Minor campaign. Political strife, involvement in war for much longer than the other European nations, low morale in the army and the rising aggressiveness of Turkish nationalism under Kemal Ataturk’s ethnic cleansing policies, culminated in the worst national tragedy in Greek modern history (more of it later).

The country had been at war since 1912-13 (Balkan Wars) and continued after the end of hostilities in Europe as in 1919 still under the leadership of Venizelos, the Greek armed forces received the mandate to land in Asia Minor -Smyrna- in order to safeguard the presence of Greek populations in Anatolia, which were threatened by Turkish nationalism. For her involvement in the War, Greece had received promises of special credit facilities by the Allies, which, however, were not honoured after the shift of Greek politics in 1920 to royalist conservatism. Escalation of
the Asia Minor campaign also caused the deterioration of inflation and deregulation of state expenditure which increased the deficit.

The tragic Asia Minor campaign and defeat did not only have a devastating psychological effect on the Greek population; It also led to the influx of 1.2 million refugees from Anatolia. Until 1919, Greece had fought as an equal on the side of the Entente Powers during the First World War and was thus integrated deeper into the European continent, both economically and politically. Its integration implied difficult political, economic and social adjustments moving fast from tradition to modernity, which was to a certain extend achieved, thanks to reforms introduced by the Liberal governments. These were prematurely interrupted, if not reversed by warfare. Aside from the fact that the Greek defeat was due among other things, to the change of attitude of the Allied forces in support of Turkey, the Powers had refused to advance war credits they had promised in 1915 and in 1917. As of 1919, the process of settling the issue with Britain and France led to procrastination and was eventually tied together with the more general and serious national debt question, and the negotiation of new loans, after Greece had appealed to the League of Nations for assistance, following the Asia Minor defeat in 1922 and the need to rehabilitate over one million refugees. In 1924 the first refugee loan was advanced, guaranteed by the League but it was soon exhausted and it became obvious that more resources were necessary to complete the project. Other foreign loans were also negotiated with private banks to allow the first phase of reconstruction through an ambitious programme of public works (road building, draining marshes, electricity production, irrigation projects and water supply systems. Reconstruction with the help of these foreign loans started on
the condition that monetary stabilisation through the introduction of the gold exchange standard would be enforced, and state deficits would be reduced through the reorganisation of the civil service. A new tripartite loan was negotiated, with one third representing a second refugee loan, another third improving public finance and one third for the establishment of a new institution, the Bank of Greece. The new central bank was founded in 1927 and when it started its operation in 1928 it had still to operate in conditions of financial distress and heavy debt of the state. Furthermore, there was reaction by the dominant until then National Bank of Greece. It was the oldest and most powerful mixed financial institution, founded in 1841. Until 1927, it had the exclusive issuing right and with the creation of the new central bank, all its liabilities from lending to the state, were passed on to the new central bank.

No sooner had the new Bank established a new monetary policy that the first signs of the World Economic Crisis afflicted Greece. Already in 1929, the symptoms of the economic crisis were obvious and kept deteriorating reaching a climax in 1931. Meanwhile the proceeds of the public works loans were exhausted and it became clear that no more funds would be available from foreign markets. The Greek government, once more under the premiership of Venizelos had to resort to internal forced loans. The Bank of Greece was also more or less obliged to follow a classic deflationary policy in the framework of the dominant doctrine of monetary orthodoxy, despite the fact that it soon became obvious that hard currency did not help Greek public finances or the economy in general and the trade balance. New taxes and expenditure cuts were imposed by the government and the Bank, like most other central banks, continued to enforce a deflationary policy which, if evaluated a posteriori, can be said to have had a negative impact on the Greek economy and the depression. However, even after Britain in 1931
abandoned the gold standard, British officials from the Treasury, the Foreign Office and the Bank of England – perhaps thinking of the impact on their loans to Greece - advised the Greek government to maintain the strong currency. The situation deteriorated further, rampant speculation on foreign exchange led to a drastic drop in the Bank’s gold reserves, further restrictions on foreign exchange followed and in 1932, Greece finally abandoned the Gold Exchange standard and reintroduced ‘forced circulation’. Soon afterwards, she declared default on foreign payments. Greece had no alternative than to abandon the gold standard, but not before it was too late, to allow any recovery and alleviate the rising of massive protest against the harsh measures of ever rising taxation (it had risen 37 times since 1923), high unemployment, deterioration of the living standard and re-emergence of old strife between the political forces. The situation had important political consequences as the Venizelos Government (1928-1932) resigned, his party lost the next elections and political instability once more set in, leading to a repetition of ‘dichasmos’ and finally in 1935-36 to a fascist dictatorship by Ioannis Metaxas.

Policies followed by Greece, after defaulting on foreign payments in April 1932, as well as the solutions and measures suggested by the Financial Committee of the League of Nations bear significant analogies with the current situation most European countries face, despite the fact that problems have not arisen because of war and defeat, although changes of European Union borders may be just as important. The current crisis is the result of global policies developing over 50 years in Europe, the last important phase being the introduction of a single strong

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2 In April 1932, just before the declaration of default it had gone down to a mere 17% of notes in circulation.
currency, the Euro, which, ceteris paribus, works like the gold standard or gold exchange standard of the interwar years. There has been no global military warfare or strong governments, but a process of gradual concentration of economic power, greed and rampant speculation in a restricted number of speculators and financiers. On the other hand, there is growing concern about the new pattern of ‘technocratic governance’ of Europe. In most cases economic power overlaps with political power. It is therefore legitimate and pertinent to ponder on certain fundamental questions. For instance, Is there a danger of breach of ethics, is there any progressive disintegration of the economy and consequent dissolution of the residual democratic form of governance of Europe?

**Analogies and Conclusion**

Among the points which bear strong similarities with the current situation, I would like to underline especially one: The confusion caused in Europe, during the interwar years and the quick disintegration of economic alliances and solidarity. The immediate and almost automatic response was to suggest strict measures to ensure payment of the loans, with total indifference if not callousness for what this meant on the population. The team of European experts then dealing with Greece included J. Roussin, director of the International Financial Committee (IFC) which was set up 26 years earlier, in 1898 after a Greek default in 1893. Reading through his reports, one is still today impressed by the resemblance of measures he and his colleagues suggested should be implemented for overcoming the crisis and balancing the Greek budget. These included higher taxation, severe cuts in public expenditure, lower wages, even closing down of schools. It is worth questioning, today if only hyperinflation leads to disintegration of cohesive societies as the example of Germany in the interwar period seems to support, or whether drastic drops in living standards, pauperisation of the middle classes,
incapacity of paying ever increasing taxes for the purpose not to finance internal development or improve social services but simply to service the debt, may lead to similar or even worse and quicker disintegration of the fible of democratic societies.

Another interesting analogy is that the League of Nations and its Financial Committee in 1932 were trying to find a general solution to the debt problem that many European countries were facing (Bulgaria, Austria, Greece). The League’s plan stipulated on the one hand, trade and customs agreements so that exports of countries in distress would resume, and on the other, wide economic flows from the strong countries to problematic states. This help would come either directly from the governments of respective states, or through loans endorsed by those governments. This was a new system of lending, harder than the previous one, which needed the binding approval of respective parliaments and this depended at the time on election results in Germany and France. Everyone believed that Hitler’s election would complicate the situation and Jean Monet in Paris was rather pessimistic. British bankers, on the other hand, like the Hambros were afraid of political change in Greece and were offering to help the Greek Venizelos government by buying and pre-paying for the whole currant production due to be exported, on the condition that the agreement would be signed immediately and in secret. This was a high risk operation for Greece who would have to pay all her dues with no guarantee that help would come from European governments, thus further increasing her burden. Characteristically, when in March 1932 (a month before the Greek government decided to default), Prime Minister Venizelos asked Tsouderos, then governor of the Bank of Greece, for his opinion, the latter answered: «the notion of ‘capacite des paiements’ might be implemented in case [problematic states] refused to pay. The situation was very difficult and unpredictable.}
The people’s instinct was guiding weak states to adopt a firm stand towards strong partners, as a sort of defense against their enslavement which was done through excessive borrowing (or excessive lending)».

Equally, on the question of leaving the gold standard, Tsouderos and his deputy Governor at the central bank, Kyriakos Varvaressos, who at the time was negotiating in Geneva with the League of Nations and in London with the Bank of England, had suggested that Greece should have abandoned the gold standard. The government, however, decided against such a drastic move in order to avoid provoking panic.

Disquieting similarities include the breakup of solidarity, and the closing ranks of strong states vs. weak ones in the European Union.

When Venizelos spoke in the Greek parliament about his decision in favour of defaulting, he pointed to the confusing advice he received from his European counterparts: «Abolishing the stabilisation was urgently recommended by those circles who were its protagonists and made stabilisation a condition for the negotiation of the tripartite loan».

Similar uncertainties are not absent today in European leadership.

If democracy today still appears to many secure, one should not underestimate that the role of parliament both nationally and in Europe is hardly ever mentioned these days, that non-elected technocrats and experts are essentially making unauthorised political decisions. Nor that, important geopolitical issues in Europe, especially in the Eastern

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3 Letter by Ε.Ι. Tsouderos to Ε. Venizelos, Paris 8 March 1932. Tsouderos Archive. In another letter, on 12 March 1932, he was also protesting against the harsh terms and measures demanded by France. The same attitude of national pride he had also expressed in a report to the Pangalos Government in 1926. At the time, hard bargaining was taking place in exchange for the Electricity contract. Report 4 July 1926. A2S1Y2 98/116.

4 Cf. E. Tsouderos, Leaving the Gold Standard (in Greek) 27.4.1932. Tsouderos Archive A3S1Y2F62.
Mediterranean and further afield in the Near East are recently causing justified concern about world stability and the wisdom of current global politics. What would the outcome of this drama be? Catharsis through violence and mayhem? I hope not. Or a more candid Deus ex machine solution? The recent decisions taken in the Eurozone may have to be interpreted within such a framework.