“DER KLEINE KLEPHTE”: WILL THE NEW ‘HAIR-STYLE’ CHANGE AN OTHERWISE CONSISTENT HISTORY?

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The most famous bankruptcy of the Greek state, in 1893, was engraved in history with the famous quote by Charilaos Trikoupis «δυστυχώς επτωχεύσαμεν» (“unfortunately we have gone bankrupt”). Sadly, that was neither the first nor the last bankruptcy for the Greek state. As one of the most renowned Greek economists, Andreas Andreades wrote about 80 years ago, “the economic history of the modern Greek state is more or less a history of its public debt.”

This is a history that begins in 1824 when, following the Greek Revolution, the already heavily indebted Greek state borrowed 800.000 Sterling from the British. Just one year later this loan was supplemented with a second and far more significant one, of the amount of 2.000.000 Sterling. The significant debt and the state’s inability to meet the high interests payments, led to the first Greek bankruptcy in 1827.

Following the “extermination” of Kapodistrias in 1831 (who tried to rebuild the state’s economy without foreign loans), the Greek King Othon borrowed another 60.000.000 Francs from the French government. Othon resorted to this action in spite of the fact that he had also donated his royal subsidies to the state. Unfortunately, the French loan was not used to rebuild the Greek economy, but rather to repay the two previous loans. The dire economic conditions led the country to its second great bankruptcy in 1843.

The next bankruptcy came towards the end of the Trikoupis Government (following a series of foreign loans, totaling around 643.000.000 Gold Francs). This third bankruptcy was soon to be followed by a disastrous war with Turkey in 1897. The war proved catastrophic for the Greek economy and in 1898 the state was forced to turn to the International Trade Organisation (ITO) – the International Monetary Fund of that time. The ITO gave a loan of 150.000.000 Francs to the Greek state. A loan that would almost automatically ‘vanish in thin air’, as 62% was given to the Ottoman Empire as compensation for the war, 20% was used to cover previous debts, 15% was used to cover existing deficits and 3% was paid for the cost of issuing the loan. Since the loan did not help towards the reconstruction of the economy, the state was, once again, unable to meet the new loan’s interest obligations. As a result, the ITO decided to collect the interest by receiving the taxes on Greek goods. such as oil, tobacco, salt, post stamps, well as the Piraeus custom duties from the foreign imported goods.

In 1932, during the Venizelos government, Greece experienced its fourth bankruptcy. The latter was a combination of the 1929 Great Depression and the abandonment of a number of states from the Gold standard; both developments had a significant impact on the already ruined Greek economy.

In sum, during the period of 1824-1932, the state borrowed a total of 2.2 billion Gold Francs. Most of the Greek loans were at the time in German hands. Indicatively, a well-known 1883 article of a German newspaper depicted King Georgios on his horse, satirically characterising him as a "kleine klephte" ("small thief"). According to a Greek newspaper of the time, the Kaiser threatened to "strangle" the Greeks! A rather familiar story today… perhaps?

"Strangling" may not be the exact word used in todays news and tabloids. Abandoning the Euro and exiting the Euro-zone family, however, a scenario that often reaches our ears, would not be very far off! Instead of strangulation, Greece actually managed to get itself a new modish 'hairdo'. It is now estimated that the 50% haircut on Greek bonds is likely to reduce the debt/GDP ratio to 120% by 2020. The lower interest rates that the state will now be paying will produce a relief of 4.5 billion annually. What's more, the Haircut Agreement does not include in the 'fine print' any new austerity measures.

The 50% haircut is today making worldwide headlines… But what does the 'Kaiser' now think? Would Merkel rather "strangle" the "kleine klepthe" who has had a pretty consistent history of debt default? Or will the new 'hair-style' prove to be the answer that history was looking for? For the good of the Greek, Cypriot, as well as the whole of the Euro-zone economy, let's hope that the haircut will not prove to be a cosmetic deception, but indeed the answer. If it is not, what would the next step be? A 'makeover'? Or simply the demise?