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Greece's Entry into the Support Mechanism

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1. Introduction

Recourse to the Memorandum had, to a great extent, become inescapable, given that the economic policy adopted immediately after the 2009 election undermined Greece's negotiating position. It was obvious that the new government was trapped in the rhetoric it had used during its stint in the opposition. For example, on September 15, 2009, George Papandreou announced in the Greek town of Tripoli:

> Ours is a different perception and approach. We say that the exit from the crisis will come through a different policy. Through income support, through above-inflation wage rises, through an emergence solidarity allowance, through measures for the protection of borrowers and over-indebted households, through the fight against inflation, through a radical tax reform that will help redistribute the burden and the wealth, and, above all, by putting the state in order. (Papandreou, 2009)

It appears, in other words, that until early 2010 the government had not grasped the magnitude of the crisis. This is why it did not set any meaningful strategy for exiting it. As a result, Greece was soon shut out of global money markets and uncertainty spread in all the productive sectors of its economy.

Under such economic asphyxia, Greece was left with only two options: disorderly default or Memorandum. Greece was forced to sign a Memorandum that contained important reform initiatives, albeit the economic policy mix it prescribed for exiting the crisis was not the most appropriate. Lacking alternative exit proposals on the European level, as well as persuasive arguments from the Greek side, Greek society was saddled with an unprecedented economic adjustment programme.

The purpose of this essay is to identify the elements of Greek government policy that led to the Memorandum. We will evaluate how Greece was led to the Memorandum, investigate the proposals it presented and the alternatives it had, and discuss the most important elements of the first Memorandum. We will show that the first period of governance, from October 2009 to the signing of the first Memorandum, is marked by a complete lack of negotiation. The Greek government did not formulate any credible plan for exiting the crisis. Immediately after the elections, the Prime Minister blamed the corrupt Greek state and global financial markets for the crisis.[1] This had a particularly deleterious effect: Greece was shut out of the markets, mistrust in the country's economic situation spread around the world, and the Memorandum became the inescapable choice.

2. The road to the Memorandum

In order to explain how and why we were led to the Greek crisis and the signing of the Memorandums, one must study the European and domestic background of the crisis. In 2007, the European Commission decided to take Greece out of the Excessive Deficit Procedure, a policy choice that was in stark contrast with the global economic crisis, which had already emerged on the other side of the Atlantic. At that time, few people in Greece foresaw the impact of the global crisis. The former Minister of Finance, George Alogoskoufis (2009), claimed that, fortunately, Greece had not been affected by the global economic crisis as much as other countries. Indeed, the Greek economy seemed unaffected by the 2007 global economic crisis. In late 2008, however, the Prime Minister correctly predicted that Greece's biggest problem would be the impact of the global crisis on the country's public debt ratio (*Eleftherotypia*, December 16, 2008). So, in January 2009 the ND government released a revised Stability and Growth Programme. At the same time, though, the European Parliament warned Greece that the new stability programme was unrealistic (Council of the EU, 2009). Even then, however, no one expected the effects of the global economic crisis on Greece.

In the months before the elections and after their announcement by ND, the main dispute between the major political parties was the apparent economic crisis. Nonetheless, the future Prime Minister had campaigned on an agenda that did not call for the creation of an organised strategy for exiting the crisis. Quite the opposite: he stressed only the economic and political scandals and the incompetence of the incumbent ND administration. Indeed, as reported by Lygeros (2011, p. 229), this was done even though "George Papandreou had provenly been informed about the dire situation of the country's public finances well before the 2009 elections."

In spite of that and although PASOK's landslide victory at the European elections of June 2009 left no doubt that the party would come to power, PASOK chose

1 See an article on the SKAI website on October 11, 2010, available at http://www.skai.gr/news/politics/article/153794/politiki-thyella-gia-ton-prothypoyrgo-poy-gnorize/.

to keep to the beaten track in the run-up to the national election. It was critical of the policies and measures taken by the incumbent Karamanlis government and promised social benefits. Panayiotis Roumeliotis (2012) claims that he had personally informed the future Prime Minister about Greece's extremely precarious situation. During the campaign, though, instead of focusing on Greece's real problems, the anti-incumbent candidates founded their political arguments on populist economic policy, promising to support incomes, revive the market, boost employment and, at the same time, improve the country's fiscal discipline (Papandreou, 2009).

3. Analysis of Greek proposals and alternatives

After the elections of October 4, 2009, the incoming government gave the impression that, although it had been informed about the country's fiscal situation, it did not —or could not— realise the gravity of the Greece's predicament. As reported by Kazakos (2011, p. 25), the Greek government,

> ... bound by its pre-election promises and, most importantly, by the ideological heritage of the party and the vested interests it had been identified with, sent out signals that were, at best, conflicting, and anyway took too long to respond to the emerging situation in an effective and reliable manner. The incoming government's "honesty" after the 4/10/2009 election was not followed by decisions for structural measures.

One month later, as described by Roumeliotis (2012, p. 52), the Greek government announced that

> as part of the policy to improve transparency and ensure the citizens' democratic involvement in the policymaking process, it would introduce a public consultation on the draft law on the emergency social solidarity allowance and the social responsibility contribution.

In other words, although the government and the Prime Minister himself had been informed about the gravity of Greece's fiscal and financing problem, they preferred to pass social solidarity programmes worth 1 billion euros, instead of taking immediate action against the crisis.

All this was preceded by a controversial revision of statistical data by ELSTAT. The revised data were taken advantage of by Greece's European partners and the international community, leading to the signing of the first Memorandum. Eurostat's comments on the speed of this revision are, indeed, very telling.[2] In other words, by underestimating the magnitude of the Greek problem, the Greek government failed to develop a credible strategy for exiting the crisis and, as a result, the country was soon shut out of the financial markets and left with only one way forward.

2 See, for example, European Commission 2010, especially page 21, point 4.2.

As reported by Loukas Tsoukalis (2013, p. 54):

> It all began in October 2009, when the incoming PASOK government, headed by George Papandreou, announced that the Greek budget deficit for 2009 would be much higher than previously claimed by the outgoing New Democracy government and would actually be a two-digit figure. This announcement was not followed by serious measures for dealing with the problem. ...: Greek sovereign bond spreads soared, while the Greek government and its agencies watched in bewilderment.

The report continues (Tsoukalis, 2013, p. 60):

> PASOK was elected in October 2009 on a strong majority and on a mandate to increase government spending and further reinforce the welfare state. Obviously, PASOK should have known better.

It was only in early 2010 that the new government started taking some measures of a fiscal nature; and this because these were, actually, forced on it by the country's lenders. The superficial response to the problem and the lack of any strategic planning are evident in the legislative initiatives taken by the government as early as October 2009, and were the main causes of the imposition of such a strict fiscal adjustment programme on the country. The main crisis-related legislative initiatives of the 2009-2012 period of governance are presented in Table 1. It is no surprise that some of these initiatives actually widened the deficit (e.g. Law 3808 of October 10, 2009), while their majority is part of the commitments made by Greece in the context of implementing the Memorandum.

Table 1. Legislative initiatives of the Greek government, 2009-2012

Law	Measures
L. 3808, December 10, 2009	Emergency social solidarity allowance, extraordinary social responsibility contribution by large enterprises and large property holders.
L. 3812, December 28, 2009	Reform of the public sector hiring system.
L. 3815, January 19, 2010	Amendment to the Inheritance, Donation, Parental Donation, Dowry and Lottery Prize Taxation Code, and to the National Customs Code.
L. 3816, January 19, 2010	Settlement of business and professional obligations to credit institutions, provisions on economic behaviour data processing.
L. 3828, February 16, 2010	Arrangements to petroleum product taxation.

Law	Measures
L. 3831, February 18, 2010	Ratification and amendment of Act of Legislative Content "Revision of vehicle road taxes and abolition of the vehicle-scrapping scheme"
L. 3833, March 5, 2010	Protection of the national economy – Emergency measures to tackle the fiscal crisis.
L. 3839, March 23, 2010	System for the selection of department heads on the basis of objective and meritocratic criteria — formation of a Special Department Head Selection Council (EISEP)
L. 3840, March 24, 2010	Decentralisation, simplification and enhancement of the efficiency of the procedures of the National Strategic Reference Framework (NSRF) 2007-2013 and other provisions.
L. 3842, April 20, 2010	Restoration of tax justice, fight against tax evasion, and other provisions.
L. 3845, May 6, 2010	Measures for the application of the support mechanism for the Greek economy by euro area Member States and the International Monetary Fund.
L. 3847, May 7, 2010	Revision of the Christmas and Easter bonuses and the holiday entitlement for public sector pensioners and beneficiaries.
L. 3851, May 25, 2010	Expediting the Development of Renewable Energy Sources for dealing with climate change.
L. 3852, June 1, 2010	New local government and regional administration architecture — "Kallikratis" programme.
L. 3853, June 8, 2010	Simplification of procedures for the establishment of sole proprietorships and private companies.
L. 3861, July 5, 2010	Enhancement of transparency through the mandatory posting of laws and acts by government, administrative and local government bodies on the Internet — "Diavgeia" Programme.
L. 3863, July 12, 2010	New Social Security system and relevant provisions. Labour relations.
L. 3864, July 13, 2010	On the establishment of the Financial Stability Fund.
L. 3865, July 16, 2010	Public sector pension system reform and other provisions.
L. 3868, July 27, 2010	Improvement of the National Health System and other provisions within the competence of the Ministry of Health and Social Solidarity.
L. 3869, July 28, 2010	Arrangement of debts of individuals in financial distress.
L. 3888, September 30, 2010	Voluntary settlement of tax differences, outstanding tax debts and other provisions for effectively cracking down on tax evasion.

Law	Measures
L. 3891, October 26, 2010	Restructuring, consolidation and development of the OSE group and TRAINOSE.
L. 3894, November 23, 2010	Acceleration and transparency regarding the realisation of strategic investments.
L. 3895, November 30, 2010	Closure and merging public sector services, organisations and entities.
L. 3899, December 14, 2010	Urgent measures for the implementation of the support programme for the Greek economy.
L. 3908, January 25, 2011	Promotion of private investments for economic growth, entrepreneurship and regional cohesion.
L. 3918, February 15, 2011	Structural reforms of the health care system
L. 3919, February 22, 201	Principle of professional freedom. Elimination of unjustified restrictions to the access and exercise of professions.
L. 3943, March 29, 2011	Combating tax evasion, staffing of auditing agencies
L. 3982, June 7, 2011	Simplification of the licensing of technical professional and manufacturing activities and business parks and other provisions.
L. 3985, June 29, 2011	Medium-term fiscal strategy, 2012-2015.
L. 3986, June 30, 2011	Urgent measures for the implementation of the medium-term fiscal strategy 2012-2015.
L. 4002, August 4, 2011	Amendment of the public sector's pension legislation – Provisions for development and fiscal consolidation.
L. 4014, September 13, 2011	Environmental licensing of projects and activities, regularisation of unauthorised buildings in conjunction to the creation of environmental balance.
L. 4021, September 27, 2011	Enhanced measures for the supervision and restructuring of credit institutions – Regulation of issues of financial nature – Ratification of the European Financial Stability Facility (EFSF) Framework Agreement.
L. 4024, October 25, 2011	Pension provisions, uniform pay scale-grading system, labour reserve and other provisions for the implementation of the medium-term fiscal strategy 2012-2015.
L. 4031, November 30, 2011	Ratification of Act of Legislative Content "Regulation of issues of financial nature".
L. 4038, January 31, 2012	Urgent measures for the implementation of the medium-term fiscal strategy 2012-2015.

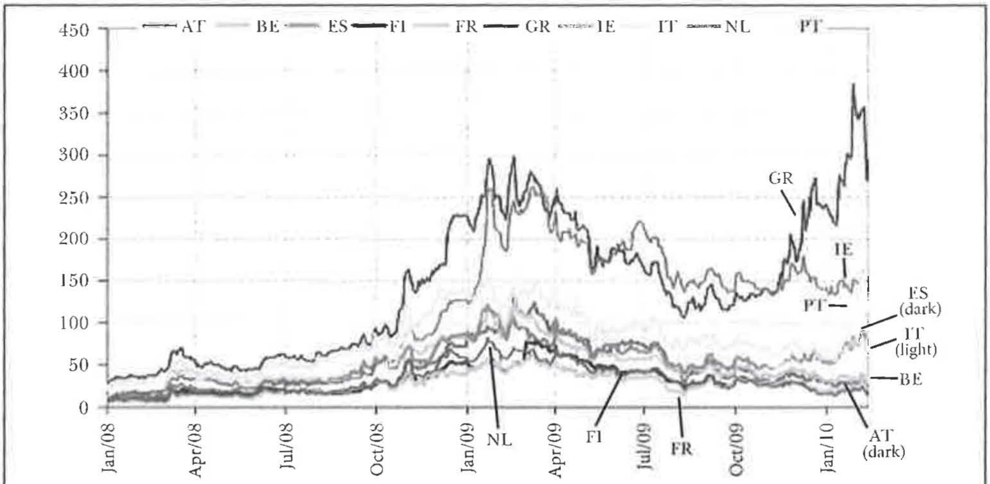
Law	Measures
L. 4046, February 12, 2012	Approval of the Draft Financial Assistance Facility Agreements between the European Financial Stability Facility (EFSF), the Hellenic Republic and the Bank of Greece, approval of the Draft Memorandum of Understanding between the European Commission, the Hellenic Republic and the Bank of Greece and other urgent provisions for the reduction of the public debt and the rescue of the national economy.
L. 4047, February 14, 2012	Ratification of Act of Legislative Content "Very urgent measures for the implementation of the Medium-term Fiscal Strategy 2012-2015 and of the State Budget for 2011" and Act of Legislative Content "Regulation of very urgent issues for the implementation of law 2024/2011 'Pension provisions, uniform pay scale - grading system, labour reserve and other provisions for the implementation of the Medium-term Fiscal Strategy Framework 2012-1015' and of issues falling within the competence of the Ministries of Administrative Reform and E-Governance, Interior, Finance, Environment, Energy and Climate Change, and of Education, Lifelong Learning and Religious Affairs and related to the implementation of the Medium-term Fiscal Strategy Framework 2012-2015."
L. 4048, February 21, 2012	Regulatory Governance: Principles, procedures and means of good law-making.
L. 4051, February 28, 2012	Provisions regarding pensions and other urgent provisions for the application of the Memorandum of Understanding of L. 4046/2012.
L. 4052, February 29, 2012	Law falling within the competence of the Ministries of Health and Social Solidarity and of Labour and Social Insurance applying the provisions of Law "Approval of the Draft Financial Assistance Facility Agreements between the European Financial Stability Facility (EFSF), the Hellenic Republic and the Bank of Greece, approval of the Draft Memorandum of Understanding between the European Commission, the Hellenic Republic and the Bank of Greece and other urgent provisions for the reduction of the public debt and the rescue of the national economy."
L. 4060, March 21, 2012	Ratification of the Act of Legislative Content "Approval of the Draft Master Financial Assistance Facility Agreement between European Financial Stability Facility (EFSF), the Hellenic Republic, the Hellenic Financial Stability Fund (HFSF) and the Bank of Greece and provision of authorisations for the signature of the Master Agreement."

It is obvious, therefore, that, especially during the decisive first period, the reaction of Greece's political leadership was erratic and centred on honouring pre-election commitments instead of addressing the structural causes of the looming problem. As a matter of fact, on December 10, 2009 the government passed Law 3808, enacting measures concerning the emergency social solidarity allowance and an extraordinary social responsibility contribution on large enterprises and large property holders. Under these circumstances, the Greek government could no longer convince either only the markets or the people of Greece that its reform initiatives were effective. This way, as reported by Roumeliotis (2012, p. 58-59) "the country's Prime Minister, George Papandreou helped instil these negative perceptions in our European partners."[3]

Only on March 5, 2010 did the government try, by means of L. 3833, to take some expenditure-cutting measures, amounting to 4.8 billion euros, in order to respond to the fiscal crisis. The lack of an exit strategy was a main factor in the emergence of the crisis. But it was not the only one. It should also be noted that the essence of the measures that were actually passed points, once again, to the detrimental role and influence of labour unions and vested interest groups as regards the modernisation of the Greek economy (Kazakos, 2010).

Under these circumstances, the financial markets, which were by then fully aware of the political, institutional and structural problems of the Greek state, did not believe that Greece could weather the crisis, and thus the country was excluded from all financing channels. In the same period, as illustrated in Figure 1, the spreads on the 10-year government bond over the German bund soared, and many people believed that Greece's disorderly default was inevitable. Thus, there was no dilemma for Greece's political leadership: recourse to the Support Mechanism was the only way to go.

Figure 1. Ten-year Greek government bond yields over the German bond, January 2008-January 2010



Source: Angeloni, 2010.

3 See footnote 1 comments on Papandreou's perception on Greece, as reported by Jean-Claude Juncker.

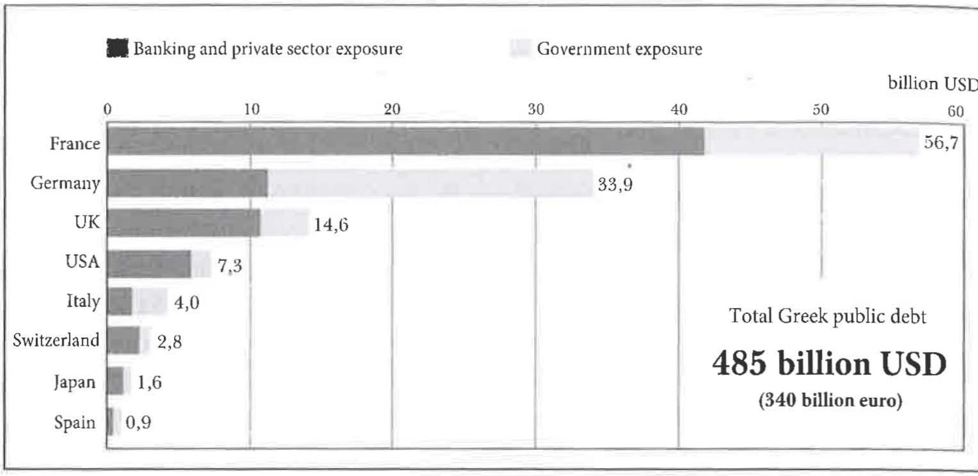
Shut out of global money markets, lacking a strategic plan for exiting the crisis, without any option of a bailout within the euro zone, and with public morale at its nadir, Greece had no other option. As in the 1980s, it would either have to ask for help from the EU or resort to the IMF. Actually, as claimed by Roumeliotis (2012), recourse to the IMF had for quite some time been in the plans of the Greek government. In the Parliament session of May 6, 2010, the atmosphere was tense. Minister of Finance Papakonstantinou said (Hellenic Parliament, May 6, 2010):

> Because in less than two weeks we reach the maturity of a nine billion euro bond. Because the state coffers do not have that amount of money. Because the country cannot anymore borrow this money from foreign markets. And because the only way the country can avoid bankruptcy and default is to get this money from our European partners and the International Monetary Fund. Things are that simple. And to get this money, we have to agree to a three-year economic policy programme, which is also a prerequisite. These days, the Parliaments of various countries throughout Europe are voting to support Greece. Will the Greek Parliament do its own duty? Will the Greek Parliament show its commitment to the implementation of this programme? This is the question that all political groups will be called to answer in Parliament.

4. The Memorandum

Greece's preliminary talks with the IMF actually began in March 2010 and ended with the signing of the first Memorandum in May 2010 (Roumeliotis, 2012). In fact, there was disagreement even among the representatives of the most economically powerful states of the world about how best to resolve Greece's economic crisis. They agreed on only one thing: that a possible Greek default could have a tremendous impact on the global economy. The report of the Bertelsmann Stiftung foundation (2012) is very enlightening in regard to the consequences of a Greek default and exit from the EMU. According to this report, the GDP of the world's 42 largest countries could be reduced by up to 17.2 trillion euros by 2020. Moreover, the largest countries of the euro zone were heavily exposed to Greek debt. Figure 2 presents the countries with the largest exposure to Greek debt. The lighter shade indicates government exposure and the darker shade indicates banking and private sector exposure to Greek bonds. According to the Bank for International Settlements (2011), Greece's total debt stood at 340 billion euros (485 billion US dollars). Five countries had the highest exposure to Greek debt: France, Germany, the United Kingdom, Italy and Switzerland. Moreover, the US was also exposed in absolute terms, the only difference being that, given its size, the effect on the American economy could not be as serious.

Figure 2. Exposure to Greek debt, 2011



Source: Bank for International Settlements, 2011.

Obviously, Greece should have used the European banks' exposure to Greek debt as a bargaining chip. As argued by Roumeliotis (2012, p. 86):

> At that time, the only concern of Germany and France was to secure the interests of their banks, which had made mass acquisitions of Greek government bonds. According to estimates, the foreign banks' exposure to Greek government bonds exceeded 76 billion euros in December 2006.

In September 2009, the foreign banks' exposure to Greek bonds started to decrease, along with an increase in the exposure of Greek banks and other domestic investors. By the end of 2011 the exposure of foreign banks to Greece's public debt had been substantially reduced, as a large portion of their bond holdings had passed to the ECB and the Support Mechanism. A possible Grexit would be risky. As proved later, the view that prevailed on the European level was that the Greek crisis should be jointly tackled by the IMF and the EU. The Greek adjustment programme would focus on fiscal adjustment and consolidation, financial stabilisation, and structural reform.

Under these circumstances, a Memorandum of Understanding among the European Union (EU), the European Central Bank (ECB), the International Monetary Fund (IMF) and Greece, was ratified by the Greek Parliament on May 6, 2010 under Law 3845/2010. The plan included the reduction of the country's fiscal deficit by 11% of GDP in the four years 2010-2014, as a condition for the provision of financial assistance of 110 billion euros, of which 80 billion would come from EU funds and the remaining 30 million from the IMF. Greece would start repaying this debt after a three-year grace period. This sovereign rescue plan was very different from previous IMF programmes, since it included the actual involvement of the European Commission and the ECB in the process, as well as in the supervision of the Greek side's compliance with its commitments (Mitsopoulos & Pelagidis, 2012). In return for the 110 billion euro package, Greece would have to take harsh austerity measures, which would actually have too formidable structural effects on the country to be ignored (Monastiriotis, 2011). Another drawback of the Memorandum signed by Greece was that it did not include any type of debt restructuring (Kazakos, 2011).

The first Memorandum imposed some draconian fiscal adjustment conditions on Greece, also providing for major structural reforms. In the fiscal adjustment side, it provided for spending cuts of 5.3% of GDP, revenue increases of 4% of GDP, the abolition of the 13th and 14th salaries (a measure that had already been taken) and major cuts in public expenditures, which in most cases led to reduced investment. The structural measures taken during 2010 are shown in Table 2.

The Memorandum implied the adoption of a single rescue plan, which left very little room for independent economic policy-making. As pointed out by Kazakos (2011, p. 84):

> At home, the Memorandum signalled, at least initially, the end of the so-called "transition to democracy" — the period that began after the fall of the dictatorship, and was marked by political system dysfunctions and pervasive ideological fixations, which led to widespread rent-seeking, ballooning debts and domestic production competitiveness problems.

Table 2. Greece's structural measures for 2010

PREVIOUS MEASURES	
1. Reduction of salary and pension costs through cuts in salary and pension supplements (excluding minimum pensions).	Improves the sustainability of public finances, affects the determination of wages in the private sector.
2. Increase of the regular VAT rate from 21% to 23% and the reduced rate from 10% to 11%, as well as of excise taxes on alcohol, tobacco and fuel, generating a gain of almost 1.25 billion euros in 2010.	Improves the sustainability of public finances.
3. Formation of a special GAO department and appointment of a Department Head responsible for the collection of cash-basis general government data.	Setting of responsibilities for the fiscal supervision of the general government during the year.

STRUCTURAL TARGETS	
End of June, 2010	
1. Establishment of an independent Financial Stability Fund (FSF) for preserving the health of the financial sector and, therefore, the option to strengthen the Greek economy through capital injections to the banking system, if necessary.	Increases stability in the financial system.
2. Adoption and implementation of the local government reorganisation plan, with the aim of reducing the number of local government bodies and elected/appointed officials ("Kallikratis").	Improves the sustainability of public finances.
3. Amendments to Law 2362/1995, designed to (1) ensure that the MINFIN presents a three-year fiscal strategy and budget, and (2) introduce a top-down budgeting approach, including expenditure constraints in the state budget.	Improves the credibility of the budget and the fiscal adjustment programme.
4. The National Actuarial Authority must present a report evaluating whether the parameters of the new system are materially improving long-term actuarial equilibrium.	Reduces the fiscal cost of population aging and improves the long-term sustainability of public finances. Increases labour market participation.
End of September, 2010	
1. Adoption of a comprehensive pension system reform that reduces the projected increase of public pension expenditure for the period 2010-60 to 2.5% of GDP.	Improves the sustainability of public finances.
2. Introduction of commitment-recording in all ministries and public organisations. Disclosure of monthly data on year-on-year changes in general government aggregates (including outstanding debts).	Reduces expenditure overruns.
3. Disclosure of the financial statements of the ten highest-deficit public utility corporations for the year 2009, audited by certified accountants, on the official website of the Ministry of Finance.	Increases transparency in regard to the risks that threaten fiscal sustainability.

4. Implementation of an effective project management structure (including close supervision by MINFIN and five groups of experts) with the purpose of realising a plan for cracking down on tax evasion, in order to enhance tax compliance by strengthening the collection mechanism and collecting outstanding debts from the largest debtors — in collaboration with social security funds, the reorganisation of a team focusing on the largest taxpayers that contribute the largest portions of the tax revenue, a strong audit programme for cracking down on systematic tax evasion by high net worth individuals and high-income freelance professionals, including criminal sanctions on the largest offenders.	Helps achieve revenue targets and enhances the sustainability of the adjustment, by widening the allocation of the adjustment cost.
End of December, 2010	
1. Release of a detailed report by the MINFIN, in collaboration with the Single Payments Authority, regarding the structure and level of compensation and the size and dynamics of employment in the general government.	Reduces compensation grades. Improves transparency in regard to public sector employment.
2. Adoption of a new Regulation on Statistical Obligations of the Agencies of the Hellenic Statistical System.	Enhances confidence in fiscal data and supports fiscal policy-making.
3. Preparation of a privatisation programme for the sale of state-owned assets and enterprises, with the aim of collecting 1 billion euros per year during 2011-2013.	Reduces state intervention in the real economy, improves market efficiency and reduces budget overruns.

Source: Law 3845/2010, Appendix IV, Memorandum of Economic and Financial Policies, Gazette issue 65/6.5.2010, p. 1355.

5. The impact on Greek society

Many economic analysts believe that the Memorandum of Understanding was disastrous for Greece, while its results are rather doubtful.

First, the authors of the programme did not correctly estimate the effect of reduced incomes on the Greek economy's effective demand, since they miscalculated the fiscal multipliers (Standard & Poor's, 2012).

Second, global financial markets affected the magnitude and impact of austerity measures in Greece. As argued by De Grauwe and Yuemei (2013, p. 4) "the timing and the intensity of the austerity programmes have been dictated too much by market sentiment instead of being the outcome of rational decision-making processes."

Third, on the domestic level, technocrats ignored the role of trade unions and various interest groups in regard to the realisation of the reform agenda. Kaplanoglou and Rapanos (2012, p. 17) argue that:

> Perhaps more surprising is the degree to which these features seem to have persisted even after Greece was subjected to an ambitious fiscal adjustment programme by the three international organisations.

Fourth, Greek politicians once again were reluctant to align themselves with the major reform initiatives proposed by the Memorandum (Mitsopoulos & Pelagidis, 2012).

Fifth, the demands of IMF and euro zone officials for adjustment and a smaller, more flexible and more efficient state, however understandable, were based on the assumption that Greece's political culture could change dramatically and in short notice (Sklias & Maris, 2013). Obviously, this parameter was ignored. Greece's example demonstrates that political and institutional convergence within the euro zone proved to be much harder than economic convergence. Apparently, all efforts to modernise and "Europeanise" the Greek state not only failed to create a stable political and economic system in Greece, but permanently established a fully-fledged clientelist political system as the key feature of Greek political life. Although the political parties recognised the necessity of the reform and real modernisation of the Greek state, they simultaneously undermined all relevant efforts.

Table 3. Short-term economic indicators, 2001 to early 2011

Month/ Year	Economic sentiment indicator		Business expectation indicator (Greece)				Consumer confidence indicator (Greece)
	EU-27	Greece	Manu-facturing	Con-struction	Retail trade	Services	
2001	101.0	107.6	101.9	114.0	92.2	105.8	-26
2002	94.9	98.9	101.2	114.0	93.3	82.8	-28
2003	93.2	93.2	97.9	115.0	102.0	85.5	-39
2004	102.5	102.9	99.1	81.5	104.8	94.6	-26
2005	99.4	89.3	92.6	63.0	96.8	93.6	-34
2006	108.4	103.1	101.5	91.1	110.8	103.7	-33
2007	110.8	108.0	102.8	92.5	120.8	106.6	-29
2008	90.7	89.0	91.9	95.2	102.5	97.8	-46
2009	79.9	70.6	72.1	65.5	80.4	70.1	-46
2010	101.6	75.1	76.2	45.2	59.5	62.9	-63
Jan 10	96.3	81.7	75.8	64.1	75.3	67.2	-47
Feb 10	97.9	78.5	72.6	48.5	71.6	63.1	-51

Month/ Year	Economic sentiment indicator		Business expectation indicator (Greece)				Consumer confidence indicator (Greece)
	EU-27	Greece	Manu-facturing	Con-struction	Retail trade	Services	
Mar 10	99.8	76.3	75.3	39.6	54.5	61.7	-58
Apr 10	101.1	75.8	80.6	44.6	64.0	64.1	-61
May 10	100.0	70.2	74.9	44.0	64.3	56.8	-67
Jun 10	100.1	71.8	75.3	51.1	53.3	63.1	-67
Jul 10	102.1	73.9	75.8	46.1	50.8	64.1	-67
Aug 10	103.2	75.1	76.9	48.0	53.2	67.0	-61
Sept 10	103.6	74.3	78.4	35.5	53.4	66.7	-67
Oct 10	104.0	74.9	78.5	59.7	58.2	67.4	-72
Nov 10	105.2	74.8	74.6	56.1	55.3	60.3	-69
Dec 10	106.3	73.7	71.3	32.2	56.6	61.5	-75
Jan 11	105.8	76.1	76.6	29.1	57.5	60.1	-72
Feb 11	107.2	79.4	80.6	34.6	64.8	57.5	-67

Source: IOVE, 2011.

As a result, Greek society has been dealt one of the most crippling blows that a nation could suffer. In 2010, 145,000 jobs were lost, while the unemployment rate rose to almost 15%. At the time of writing (early 2014) unemployment has climbed to 27% and is considered to be the Greek government's gravest problem (SKAI, 8/1/2014). Private consumption fell by 4.5% from 2008 to 2010, and the Greek consumers' confidence collapsed. Table 3 illustrates what happened in Greece during the years of the Memorandum. The economic sentiment indicator in Greece fell from 108 in 2007 to 75.1 in 2010, while the consumer confidence indicator fell from -29 in 2007 to -63 in 2010. A similar drop was recorded in the business expectation indicators for manufacturing, construction, retail trade and services. At the same time, real average income fell by almost 14% in 2010-2011 as a result of salary and pension cuts, while, in conjunction with tax hikes and price increases, the households' purchasing power was severely tested. It is now obvious that, together with the recession of the Greek economy, the imposition of harsh austerity, fiscal adjustment, and deleveraging policies in Greece caused liquidity shortages and widespread pessimism not only in Greece, but throughout the European economy, directly depressing investment and consumption. This is what Keynes called the "paradox of thrift": If the private sector undergoes a deleveraging process, then the simultaneous deleveraging of the public sector (containment of deficits through harsh austerity policies) exacerbates the crisis.

6. Conclusions

This essay discussed the main features of the Greek government's policy in the period that led to the Memorandum. More specifically, we evaluated how Greece was led to the Memorandum, presented its options during that period, and analysed the key elements of the first Memorandum and its impact on Greek society. As shown in the discussion, the period of governance that lasted from October 2009 until the signing of the first Memorandum was at least controversial as far as dealing with the impending crisis is concerned. The Greek government not only failed to grasp the gravity of the situation, but did not develop any feasible plan for exiting the crisis. During that period, the Prime Minister was simultaneously blaming the corrupt Greek state (that is, his own country) and the global financial markets for the crisis. The markets were closed shut, mistrust in Greece's economic situation spread all over the world, and the Memorandum emerged as an inescapable choice.

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