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Chapter 1

The Maastricht Convergence Criteria and Greece in the 1980s and the 1990s

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1. Introduction

As early as the late 1970s, European economic integration acquired a new dynamic, culminating in the signing of the Maastricht Treaty in 1992. The treaty, apart from the entry stages, laid out a series of "convergence" criteria that had to be met for a country to become a member of the EMU. That said, did these convergence criteria actually constitute necessary and sufficient conditions for the creation of a sustainable EMU? Why were these specific criteria selected? Was there a more appropriate theoretical basis for the establishment of the EMU? Apparently, the convergence criteria that were selected did not guarantee the EMU's long-term sustainability, making many authors severely critical of the effectiveness of the entire project. As long as fiscal policy remained a prerogative of the member states, and the architecture of the EMU did not ensure compliance with the convergence criteria, the member states would keep on breaking the rules. In this context, the case of Greece since the early 1980s is the most typical.

In the first part of this essay, we will discuss the key developments that led to the signing of the Maastricht Treaty. In the second part, we will examine the Maastricht Treaty and the convergence criteria set for attaining EMU membership. Finally, in part three of this essay we will look into Greece's public finances from the early 1980s to the early 1990s. We will demonstrate that, in addition to their feeble theoretical basis, EMU convergence criteria were a compromise among the interests of the EU's strongest member states, especially Germany and France (Maris and Sklias, 2015). Greece is typical of a country's refusal to adapt to global and European economic developments. This tacit refusal, evident in the economic policy decisions taken in that first phase, would, in the long term, jeopardize the future of the country.

2. The road to Maastricht

Following the success of the Single European Market, in the late 1980s all of the signs indicated that the time was ripe for establishing the EMU. Tomaso Padoa-Schioppa's (1987) report on the consequences of the common market on the European economy, presented a convincing link between the common market and the creation of the EMU. This link was self-evident after the speculative attacks against the EMS, which left no doubt among EU member states that the creation of the EMU had become a necessity (De Grauwe, 2003). In any other case, the member states should revert to a system of floating exchange rates. Thus, in 1988, Germany's Foreign Minister Hans-Dietrich Genscher produced a memorandum titled *A European Currency Area and a European Central Bank*, in which he stressed that Europe's monetary union was absolutely necessary for the completion of the common market. It was also necessary to create an expert group, to enable member states to formulate a series of proposals for the creation of the EMU (Mayer, 2012).

This is why the European Council meeting in Hanover, Germany (June 27-28, 1988) asked Jacques Delors to prepare a study on the creation of the EMU. That is how the Committee for the Study of Economic and Monetary Union was set up. This committee comprised the central bank governors of all twelve member states, a commissioner, and three independent technocrats, and was chaired by the President of the Commission, Jacques Delors. The purpose of the committee was to explore the conditions that could lead to the establishment of the EMU. The findings of the committee's report, the Delors Report, were published in April 1989 and stipulated the conditions and criteria for creating the EMU. According to the Delors Report (Committee for the Study of Economic and Monetary Union, 1989, pp. 14-15), a monetary union provided:

> [...] the assurance of total and irreversible convertibility of currencies; the complete liberalization of capital transactions and full integration of banking and other financial markets; and the elimination of margins of fluctuation and the irrevocable locking of exchange rate parities.

The Delors Report was the European Commission's first meaningful attempt to promote and secure the EMU. Jacques Delors had already acquired considerable experience in the field of monetary policy and was "ideologically committed to the goal of monetary union" (Hix, 2005, p. 257). However, the creation of the EMU, like that of the EU, could not happen overnight. The Delors Report, like the Werner Report, proposed three stages in the establishment of the EMU, albeit without setting any fixed deadlines, since the *ex-ante* determination of the member state economies' potential convergence was not possible.

The first stage provided for the completion of the internal market, the inclusion of all member states in the currency mechanism of the EMS, and the improvement of macroeconomic cooperation among member states. Moreover, it was decided to enhance the coordination of the member states' economic policies, as well as multilateral supervision. In effect, this stage would involve "the elimination of all restrictions on within-European capital movements, as well as the creation of greater separation between central banks and governments" (Dominguez, 2006, p. 70). The second stage would bring the institutional enhancement of the EMU, with the aim of further promoting coordination of member states' monetary policies. The third stage would result in the formulation of a common economic (monetary) policy, as exchange rates would be permanently fixed by irrevocably tying together the participating currencies, and the single currency would be created, even if this was not explicitly stated. The European System of Central Banks (ESCB) would also become operational, with any implications this might have for monetary and fiscal policy.

The Delors Report pointed out that, on the road to the EMU, the member states should fulfil certain conditions, such as the full convertibility of currencies, the stabilisation of exchange rates at certain levels, and the liberalisation of capital movements. It also proposed the establishment of the ESCB, which would be independent from any government intervention or control and, in addition, would impose ceilings on the member states' fiscal deficits. Furthermore, the Delors Report provided for the coordination of macroeconomic policies, as, despite not pointing out the necessity of a common economic policy, it demonstrated that the successful operation of the EMU would require the central supervision of the member states' fiscal policies (Dinan, 2005). More specifically, the Delors Report (Committee for the Study of Economic and Monetary Union, 1989, p. 11) stated that: "The success of the internal market programme hinges to a decisive extent on a much closer coordination of national economic policies."

In other words, the report was a plan that was adapted to the needs of that time, and did not envisage any transfer of sovereignty or a common EU budget (Verdun, 2007). Furthermore, it made no explicit reference to the Optimum Currency Area (OCA) theory as one of the major tools for evaluating the monetary union project, even though it did recognize "the problem posed by asymmetric shocks" (Wyplosz, 2006). As was made evident later on, OCA criteria never became a part of the Maastricht Treaty (Bini-Smaghi et al., 1993). In other words, the report confirmed the dominant states' coincidence of opinion in regard to the policy that should be pursued on the road to monetary union, which included the member states' commitment to monetarist orthodoxy. The EMU would be based on four principles: 1) price stability; 2) fiscal discipline; 3) austerity; and 4) structural reform.

3. Maastricht Treaty and convergence criteria

Based on the estimates of the European Commission, the EMU was a corollary of the common market. As discussed in a Commission report on the EMU (European Commission, 1990, p. 11):

> A single currency is the natural complement of a 'single market. The full potential of the latter will not be achieved without the former. Going further, there is a need for economic and monetary union in part to consolidate the potential gains from completing the internal market, without which there would be risks of weakening the present momentum of the 1992 process.

Under these circumstances, as argued by Wyplosz (2006), the divergence of opinion between France and Germany became appárent during the negotiations that led to the signing of the Maastricht Treaty. On one hand, Germany emphasized on economic policies and convergence; on the other hand, France focused on the creation of new institutional tools.

Following the Madrid European Council of June 1989, which adopted the Delors Plan and proposed to proceed with the first stage for the creation of the EMU on July 1st, 1990, it became necessary to hold detailed negotiations regarding the next stages of the EMU. These negotiations began with the Intergovernmental Conferences that were held in Rome in October 1990 and were concluded in Maastricht in 1991, with the decision to amend the Treaty of Rome in order to establish the EMU. The issues discussed at Maastricht also included the harmonisation of social policy in the EU, as well as the process to be followed for establishing a Common Foreign and Security Policy (CFSP).[1] In essence, the Intergovernmental Conferences discussed both the creation of the EMU, and the future establishment of a political union. Nevertheless, the discussions regarding the latter did not produce any concrete results.

The Maastricht Treaty was signed on February 07, 1992, and was ratified by all signatories on November 1, 1993. Above all, the treaty aimed at Europe's economic and political integration, way beyond the European Monetary System (EMS) and the Exchange Rate Mechanism (ERM), whose credibility had suffered huge blows at that time.[2] The Maastricht Treaty stipulated that the economic integration of Europe was conditional on the completion of the single European Economic Area through the circulation of the single European currency, the euro, the establishment of the ECB, and the elimination of a series of, official and unofficial, barriers that impeded the free movement of goods and services, people and capital across member states (Gilpin, 2000). The strategy pursued by the Maastricht Treaty stressed, above all, the importance of two principles: gradualism and convergence (De Grauwe, 2003, p.144).

Various key groups played a major role in the conclusion of the treaty. One of those groups was the Committee of Central Bank Governors, which modelled the ECB on the Deutsche Bundesbank Act, and "advocated the 'one person, one vote

[1] The fields of foreign and social policy lie outside the scope of this study.

[2] A series of major developments in 1992 and during the first half of 1993, caused a de facto EMS crisis. These developments shall not be discussed in this paper; it is worth remembering, though, that Europe's leaders had been stressing, through the Councils and the Commission, that the EMS was a key factor for stability and prosperity in Europe.

principle' in monetary policy matters" (Issing, 2010, p. 10). The European Commission and the Council of the Ministers also played key roles. The latter, in fact, would approve the final proposals of the Commission.

It was decided that economic integration would be realized, in accordance with the Werner report and the Delors Plan, in three stages, but on tighter timetables. These stages (see Table 1) ensured that, by the end of the last decade of the 20th century, the EU would have erected the coveted EMU on three pillars: 1) the single currency (euro); 2) the ECB; and 3) the elimination of all official or unofficial barriers and restrictions. That said, there were also those who questioned how the EMU could be created under the strict Maastricht timetable (Eichengreen and Frieden, 1993).

Table 1. The three stages of creating the EMU

Stages	**Period**	**Economic features**	**Monetary features**
First stage	1/7/1990-31/12/1993	• Completing the integration of the internal market • Strengthening the competition policy • Full implementation of the structural funds' reform • Enhancement of coordination and supervision through the creation of a 'multilateral supervision' mechanism • Budgetary adjustments in countries burdened with high public deficits or debts	• Liberalization of capital movements • Enhancement of monetary and exchange rate policy coordination • Greatest possible member-state participation in the Exchange Rate Mechanism (ERM) of the European Monetary System • Expanded use of the ECU
Second stage	1/1/1994-31/12/1998	• Evaluation and adjustment of first stage policies • Nominal convergence, linked with running low public deficits	• Establishment of the European Monetary Institute (EMI) • Further reduction of the fluctuation margins of the ERM of the MSI • Prohibition of public debt monetization • National central bank independence • Fixation of the ECU currency basket

Stages	Period	Economic features	Monetary features
Third stage	1/1/1999-	• Fixed budgetary coordination system • Further enhancement of structural and regional policies	• Establishment of the European System of Central Banks (ESCB), which includes one independent European Central Bank (ECB) • The ECB assumes responsibility for the single monetary policy • Use of the ECU as the single currency of the EC

Source: Vavouras, 1994

A decisive factor at that time was the consensus between Francois Mitterrand and Helmut Kohl in setting a starting date for the EMU. This Franco-German concordance also reflected the convergence of the monetary and economic approach of each country. This, of course, is not to say that there were no differences or clashes of interest between France and Germany. According to the Treaty on European Union, the member states would have to achieve a significant degree of economic convergence prior to joining the EMU. The adoption of convergence criteria (i.e. the requirements member states had to meet in order to attain EMU membership) was a step in this direction.[3] These criteria were fiscal stability (public deficit and public debt), also known as fiscal discipline; price stability (HICP inflation); interest rate convergence; and, finally, exchange rate stability (participation in the ERM of the EMS).

Moreover, there were two escape clauses, outlined below (see Table 2).

For each member state, transition to the final stage of the EMU was conditional on the fulfilment of the convergence criteria laid out by the Maastricht Treaty. It seems, though, that these criteria focused on nominal convergence and the fiscal discipline of the applicant EU member states, ignoring the real convergence of their economies described in OCA literature (Bladen-Hovell, 2007, p. 254). In other words, the Maastricht criteria were "simply rules for price and fiscal stability" (Afxentiou, 2000, p. 248). In contrast to the convergence criteria introduced by the Maastricht Treaty, among the key factors of real economic convergence laid out in OCA literature were factor mobility, fiscal federalism, a high degree of economic openness, and the differentiation of production. According to Schmidt and Straubhaar (1995), the Maastricht criteria had no sound theoretical basis, nor could they be justified from an economic standpoint.

[3] It should be noted that the policy convergence hypothesis is part of the literature on international political economy and was developed in the early 1990s. Its main premise is that developed democracies were forced by economic globalization to pursue increasingly similar economic policies, which lead to identical macroeconomic outcomes (Bearce, 2009).

Table 2 Convergence criteria and escape clauses

Convergence criteria	Debt and deficit escape clauses
1. Budget deficits should not exceed 3% of Gross Domestic Product (GDP).	According to the budget deficit criterion, deficits should decline substantially and continuously, in order to reach a ratio close to the reference value, while in exceptional situations, which cannot be anticipated, the deficit should be close to the reference value.
2. Public debt should not exceed 60% of GDP.	In regard to public debt, its ratio to GDP should be 'sufficiently diminishing and approaching the reference value at a satisfactory pace'.
3. Exchange rates should remain within the 'normal fluctuation margins provided for by the ERM', without any devaluation or large fluctuation for at least two years prior to the consideration of membership application.	
4. Inflation should not exceed by more than 1.5% the average rate of the three best-performing member states for at least one year prior to the consideration of membership application.	
5. The average nominal medium-term interest rate should not exceed by more than 2% the average rate of the three best-performing member states for at least one year prior to the consideration of the entry application.	

As seen from the above, the Maastricht Treaty included a series of arbitrary convergence criteria, which failed to establish the preconditions for a sustainable and stable EMU. Among the member states that had applied for the EMU were "considerable differences in living standards and/or productivity", which would only become greater as a result of any enlargement (Issing, 2010, p. 17). Moreover, the reference values selected in regard to both the public debt and the budget deficit, attracted severe criticism. Apparently, the convergence criteria set by the Maastricht Treaty were focused on the nominal convergence of the EMU (Artis, 2003).

In trying to comprehend the reasons why these criteria were chosen, one must consider whether it was advisable to create the EMU on the basis of specific timetables, stages, and criteria. Going back in history, we see that there are many ways of establishing a monetary union, not necessarily along the lines of a predetermined methodology. A case in point is the unification of Germany on July 1, 1990, which was swiftly realized without any constraints or convergence criteria. In contrast to Germany's case, the EMU took almost ten years to reach completion. This gives rise to a legitimate question: Why should a country's euro zone membership be conditional to the fulfilment of specific criteria, especially given that these criteria were not part of, and could not be explained on the basis of any theoretical or empirical economic model, for example OCA theory?

In other words, why did the architects of the treaty give such emphasis to macroeconomic conversion prior to launching the EMU, when OCA theory underlines the microeconomic conditions required for creating a successful monetary union?

It is not certain whether countries with low inflation rates and public debts, such as Germany, would agree to the EMU membership of high-inflation and heavily indebted countries, such as Greece, and this would suffice to establish the conditions for a multiple-speed Europe. As aptly pointed out by Alesina and Grilli (1993, p. 164):

> [...] unless Germany obtains a disproportionate degree of control over monetary policy of the union, it will not have much interest in joining. This creates tensions, particularly in "hard times". If the European monetary policy follows German preferences, other countries are likely to have to endure the "wrong" monetary policy in times of need. For instance, the British might have to suffer through a lengthy recession without lowering interest rates. If they are not willing to do so, there is no hope for the union, since Germany cannot be asked to agree to change its policies. In more colorful terms, one cannot ask Germany to sell "credibility" for free.

Indeed, De Grauwe (2003, pp. 145-146), discussing the role of inflationary bias in the process of establishing the EMU, offers a plausible explanation. In Germany, mainly because of the Bundesbank, price stability was the state's primary concern. But in a monetary union such as the EMU, even if the ECB was made a close copy of the Bundesbank, the representatives of the participating countries might still have different inflation preferences. This might mean the selection of an inflation target different from that dictated by German interests. To this end, Germany wanted to control member-state entry into the monetary union, so that only countries with the same preferences, in regard to price stability, would join the union (Morales and Padilla, 1994) According to De Grauwe (2003, p. 146), "... this self-imposed suffering was added evidence for Germany that countries like Italy were serious about fighting inflation."

Member states that met this condition could join the monetary union. According to De Grauwe (2003, p. 147), the same seems to apply also for public finance criteria (i.e. both the budget deficit and the public debt criterion). On the national level, it seems that the political system and, by extension, politicians, are quite often tempted to engineer a surprise inflation, even if the country's monetary authorities have the same preferences with its political authorities. That said, if in the short term a member state tends to systematically produce surprise inflation, the possibility of inflationary pressures throughout the euro zone is increased. This, however, is not compatible with the principle Germany stands for. As long as applicant member states maintain low levels of public debt and budget deficits, the emergence of inflationary policies becomes less possible and the danger of inflationary pressures across the euro zone is reduced.[4] This is why Germany wished to impose the public debt and budget deficit criteria on all applicant countries. At the same time, the exchange rate stability criterion was chosen with the aim of preventing applicant member states from joining the monetary union with devalued currencies, which would have a direct effect on the competitiveness of their goods. The interest rate convergence criterion was selected for the same reason, which is related to the possibility of speculative pressures on capital markets.

In the years following the Maastricht Treaty it became obvious that the criteria could not be easily met by EC member states, especially Spain, Portugal and Greece (Pollard, 1995, p. 11). Based on these convergence criteria it was not even certain whether the majority of European countries would be ready for EMU membership at all. If, indeed, one focused strictly on the Maastricht criteria, it becomes clear that only Luxembourg could become a member of the EMU. This is why, even after the Madrid Summit in 1995, the idea of a multi-speed monetary union seemed a reliable alternative (Alesina and Grilli, 1993). The multi-speed approach was viewed by many as a more credible, and therefore highly feasible, strategy for establishing the EMU (Dornbusch, 1990; Bayoumi and Eichengreen, 1993; Letiche, 1992). Letiche (1992) believed that the most credible scenario concerned the emergence of two or three groups of member states, facing different EMU entry timetables, depending on their ability to comply with the convergence criteria.

These debates notwithstanding, the convergence reports of both the European Monetary Institute (EMI) and the European Commission explicitly stated that the applicant member states should focus on their fiscal positions, and on the effort to support domestic growth through "corrective policies of a structural nature" (European Monetary Institute, 1998, p. 4). Both reports established that the first stage of the EMU should involve only 11 members; this is what actually happened. The European Council of Brussels in 1998 decided that only the first 11 member states that met the Maastricht criteria would attain membership (i.e. Austria, Belgium, France, Germany, Ireland, Spain, Italy, Luxembourg, the Netherlands, Portugal and Finland). Greece would be left out of the EMU, since the country did not meet the criteria. Denmark and the United Kingdom decided not to join, while Sweden failed to comply with the criterion of a central independent bank.

[4] This hypothesis is based on the political motivation of a heavily-indebted government to produce surprise inflation, in order to reduce the value of its sovereign debt.

Thus we conclude that the decision to allow a country join the EMU was based on political rather than economic considerations. Many examples support this contention. To begin, the Maastricht Treaty itself contained escape clauses, which allowed many states that did not meet the criteria to be accepted as members, since their public debt to GDP ratio was diminishing. Table 3 shows that these countries were Germany, Spain, Ireland, Italy, the Netherlands, Austria, and Portugal. What is more, it is well-known that, in order to comply with the budget deficit criterion, Germany and France made extensive use of "creative accounting". For example, in 1997 France Telecom paid the French government a lump sum that lowered the country's public deficit, while in May 1997 the German Minister of Finance made an effort to "revalue Germany's gold reserves and apply the proceeds against the country's deficit" (Dinan, 2005, p. 501).

Table 3 Applicant member state public finances, February 1998

Member-state	Budget deficit (% GDP)	Public debt (% GDP)	Membership EMU
Belgium	2.1	122.2	Yes
Denmark	-0.7	64.1	No
Germany	2.7	61.3	Yes
Greece	4.0	108.7	No
Spain	2.6	68.3	Yes
France	3.0	58.0	Yes
Ireland	-0.9	67.0	Yes
Italy	2.7	121.6	Yes
Luxembourg	-1.7	6.7	Yes
Netherlands	1.4	72.1	Yes
Austria	2.5	66.1	Yes
Portugal	2.5	62.0	Yes
Finland	0.9	55.8	Yes
Sweden	0.4	76.6	No
Great Britain	1.9	53.4	No

Source: Dinan, 2005.

4. The case of Greece, 1980-1990

In the previous section, we discussed the Maastricht Treaty and the convergence criteria set for joining the EMU. As it turned out, the Maastricht Treaty was the outcome of the converging interests of France and Germany, the most powerful EU member states, and the convergence criteria was the means chosen for safeguarding the economic coherence of the venture and, above all, Germany's interests. The EMU was created on the basis of monetarism, which had come to fill the gap left by Keynesian ideas as early as the 1970s. From that point onwards, most European countries focused on the ideas prescribed by the German economic model, the new consensus model that could not be questioned even by France. It seems, though, that not all states had fully grasped the changes that had occurred in global economic relations and the relevant economic policies as early as the 1970s. One such country was Greece.

Apparently, as soon as the new government assumed power in the early 1980s, it implemented the ideological project of "paternalistic capitalism", a project of extensive anti-capitalist references.[5] This socialist ideology (of socialist transformation) comprised an extensive series of measures, such as the nationalisation ("socialisation") of Greek enterprises and the creation of the trade union movement, which perpetuated and legitimized the phenomena of statism, populism and rent-seeking behaviour, at the expense of private enterprise and economic competition. As pointed out by Kazakos (2009, p. 345):

> As government, the movement [the Panhellenic Socialist Movement, PASOK] ignored all political and economic theory concepts that warned against the pitfalls of statism and vested interests within and around the state.

Thus, instead of leading the country towards convergence with the European situation at that time, Greek economic policy and the reform initiatives of the 1980s actually fell back to populist stratagems, which were completely at odds with developments in Europe (Kazakos, 2010).

In fact, even during the government's second term, and despite the attempted shift in economic policy, its economic programme made absolutely no reference to the European Community, the country's obligations that stemmed from EC membership, and the limitations these obligations imposed. As reported by Kazakos (2009, p. 358):

> Certain officials that were chiefly responsible for preparing [the programme], such as Professor L. Katseli, considered the mere removal of the words "European Community" from the text of the programme to be a great accomplishment.

Under these circumstances, key European rules were, obviously, ignored during the eight years of PASOK rule.

In other words, it seems that the government paid absolutely no heed to the "new consensus" on economic policy matters that had been reached on the European level, since, as part of its "socialist experiment", it aimed at severing the apron

[5] See Papandreou, 1972.

strings of Greece's underdevelopment and dependence on multinational capital and Western power centres (Argitis, 2004). To this end, it resorted to massive borrowing, and pursued expansionary policies. Among other things, the government: 1) borrowed on a massive scale; 2) offered interest-free loans; 3) "socialized" state enterprises, by enacting Law 1368/83; 4) instituted wage increases and social transfers; and 5) pursued a generous economic policy. Actually, in 1982 the government increased the minimum salary by 47% and the minimum wage by 45%. Notwithstanding their populist character, though, such policies had no real positive impact on the citizens' well-being. Quite the contrary, in conjunction with tax hikes, they caused unemployment to rise, inflation to escalate, and investment to dwindle, also holding back the Greek economy's recovery (Alogoskoufis, 2009).

Table 4 Greece's macroeconomic performance, 1980-1990

Year	Growth rate (%)	Inflation (%)	Unemployment (%)	Current account balance (%)
1980	0.7	24.9	2.7	0.6
1981	-1.6	24.5	4	1.7
1982	-1.1	21.1	5.8	-1.8
1983	-1.1	20.2	7.9	-2.8
1984	2	18.5	8.1	-2.5
1985	2.5	19.3	7.8	-4.5
1986	0.5	23	7.4	-3.6
1987	-2.3	16.4	7.4	-0.8
1988	4.3	13.5	7.7	-1.8
1989	3.8	13.7	7.5	-4.3
1990	0	20.4	7	-4.7

Source: National Statistical Service of Greece (ESYE), 1980-1990.

This is also illustrated by Table 4, which presents Greece's macroeconomic performance during the 1980s, when the country's growth was rather feeble, inflation continued to soar, unemployment jumped from 2.7% in 1980 to 8.1% in 1984 and remained above 7% in the ensuing years, while the dramatic deterioration of the current account culminated in a 4.7% deficit in 1990, demonstrating the low competitiveness of Greek products and the failure of the economic policy mix.

The other macroeconomic aggregates were even worse. Under the socialist government of 1981-1989, the country's budget deficit rose by almost 15 percentage points of GDP (Alogoskoufis, 2009), general government debt rose from 28.6% in 1980 to 80.7% in 1990, net borrowing rose from 2.6% in 1980 to 16.1% in 1990, and total expenditure increased from 31.8% in 1980 to 48.2% in 1990. Table 5 shows Greece's macroeconomic aggregates from 1980 to 1990.

Table 5 Greece's macroeconomic aggregates, 1980-1990

Year	Net borrowing (%)	Total expenditure (%)	General government debt (%)
1980	-2.6	31.8	28.6
1981	-9.1	38	34.5
1982	-6.8	38.7	41.3
1983	-7.6	40.5	41.9
1984	-8.4	42.4	48
1985	-11.7	45.6	54.7
1986	-9.5	44.1	55.9
1987	-9.2	46.4	62.2
1988	-11.5	42.2	66.8
1989	-14.4	43.6	69.9
1990	-16.1	48.2	80.7

Source: National Statistical Service of Greece (ESYE), 1980-1990.

Under these circumstances, in 1985 Greece hovered on the brink of default. Indeed, as reported by Kazakos (2009, p. 375):

> Were it not for the first instalment of the Community loan and the stability programme that came along with it, the country would be unable to pay for its imports.

Faced with the bleak prospect of default, the country had only two options: either to resort to the IMF or to ask for assistance from the EC. The newly re-elected government preferred to ask for the EC's help, through the solidarity mechanism, a loan mechanism designed to support the member states' balance of payments.[6] Thus, on December 12, 1985, the EC granted Greece a USD1.75 billion loan, in two instalments. In order to be granted the loan, the Greek side committed itself to the implementation of an economic recovery programme, based on boosting the competitiveness of the Greek economy, harnessing inflation, reducing deficits, and enhancing productive structures through structural reforms.

Despite anti-European populist rhetoric at home, Greece had promised to realize many of the reform initiatives included in today's Memorandum as early as the 1980s. Nevertheless, instead of implementing structural reforms and streamlining the structure of the local economy, Greece opted for boosting its competitiveness through a 15% devaluation of the drachma. As a result, Greece's economic and ideological convergence with the EC never became a reality.

Kazakos (2009, p. 380) offers an accurate description of the situation.

[6] In accordance with EEC Regulation 682/1981.

One of the reasons was the severe backlash from an unprepared society and —most importantly— from the majority party's strongholds in trade unions and other areas. This points to the existence of rigid expectations that were incompatible with austerity. These expectations had been fuelled by the economic philosophy prevailing in a wide range of social and political forces, the euphoria of 1982 and 1985 (electoral cycle!), and the socialisation and nationalisation measures, which presented private sector workers with the prospect of being integrated in the state apparatus or, at least, exercising control over the financial targets of the country's large PUCs and enterprises. An explosive mix of political values, statism, and vested interest politics was at play in the background!

5. Conclusions

In the previous sections we discussed the process that led to the signing of the Maastricht Treaty. As we saw, both the treaty and the convergence criteria adopted in regard to the countries' EMU membership, apart from lacking any solid theoretical basis, were the result of a compromise, following a period of tough negotiations (Schmidt and Straubhaar, 1995). The Maastricht convergence criteria did not comply with the main tenets of OCA theory, and, as a result, they could not be equally applied to all member states. All these procedures were based on the ideas of the monetarist revolution or, otherwise, the "new consensus" that was adopted with the aim of helping governments resolve the financial problems that had emerged since the 1970s. During the same period, the dominant features in Greece were the leadership of Andreas Papandreou and the "paternalistic capitalism" project, which was completely at odds with European and international developments. Greece's case is therefore the most typical example of a country's refusal to adapt.

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