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Ottoman Institutional Legacies and Greek Fiscal Governance: Historical Path Dependence and the Road to the 2010 Crisis

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Abstract

The aim of this thesis is to sketch out a small aspect in the economic and historic origins of the vicious cycle of debt and default that has plagued Greece from its very inception till the momentous financial meltdown in 2010. The genesis of the modern Greek State did not occur in a vacuum, instead the Nation-State emerged from the ashes of the dying Ottoman Empire in the early 19th century and therefore inherited its political, economic and legal bearings. This study examines just one aspect of the transition from Turkish rule to modern nation-building: the historic making and the subsequent evolution of Greek Fiscal Institutions in explaining the country's countless instances of unsustainable foreign borrowing, reckless public spending and the resulting stooping into default. It will evaluate the presence or absence of these institutional path-dependencies in the 3 main historic debt cycles of modern Greece as outlined by eminent economist George Alogoskoufis: Cycle I from 1821 to 1898, Cycle II from 1899 to 1949 and Cycle III from 1950 to 2010 and by analysing the 5 major instances of Greek sovereign debt crisis: 1826, 1843, 1893, 1932 and 2010.

Abstrakt

Ziel dieser Arbeit ist es, einen kleinen Aspekt der wirtschaftlichen und historischen Ursprünge des Teufelskreises aus Verschuldung und Zahlungsausfall zu beleuchten, der Griechenland von seinen Anfängen bis zur verheerenden Finanzkrise 2010 geplagt hat. Die Entstehung des modernen griechischen Staates erfolgte nicht im luftleeren Raum; vielmehr erhob sich der Nationalstaat Anfang des 19. Jahrhunderts aus der Asche des untergehenden Osmanischen Reiches und übernahm dessen politische, wirtschaftliche und rechtliche Strukturen. Diese Studie untersucht einen Aspekt des Übergangs von der türkischen Herrschaft zum modernen Staatsaufbau: die historische Entstehung und die darauffolgende Entwicklung der griechischen Finanzinstitutionen, die die zahlreichen Fälle untragbarer Auslandsverschuldung, verschwenderischer öffentlicher Ausgaben und den daraus resultierenden Zahlungsausfall des Landes erklären. Die Studie untersucht das Vorhandensein oder Fehlen dieser institutionellen Pfadabhängigkeiten in den drei wichtigsten historischen Schuldenzyklen des modernen Griechenlands, wie sie von dem renommierten Ökonomen George Alogoskoufis skizziert wurden: Zyklus I von 1821 bis 1898, Zyklus II von 1899 bis 1949 und Zyklus III von 1950 bis 2010. Dazu werden die fünf wichtigsten Fälle griechischer Staatsschuldenkrisen analysiert: 1826, 1843, 1893, 1932 und 2010.

Introduction

On 3rd May 2010 the halls of the Greek Finance Ministry at Athens was buzzing with activity as top ranking Greek civil servants, Eurozone Ministers, EU officials and IMF executive board members all witnessed Prime Minister George Papandreou ink the official Memorandum of Understanding which kicked off the joint EU-IMF bailout agreement of a whopping 110 Billion EUR to a Greece that was on the verge of collapse[1]. After years of throwing smoke screens and manipulating data to Brussels, the grim reality was exposed on 23rd April 2010 when the Greek government officially requested for financial assistance without which the nation would stumble into Bankruptcy, it revealed that fiscal deficit had climbed to over 12% of GDP, 4 times the EU limit of 3%, total government debt had climbed to 140% of GDP, its government bonds had become worthless to credit markets, over 20 Billion EUR in bond redemptions alone was due in 2 weeks as 4 decades of riding a debt gravy train finally caught up to the country.[2]

These events and the subsequent tale of bailouts, austerity and extreme recession in Greece from 2010 to 2016 have made the country the poster child for financial irresponsibility and economic mismanagement, a warning tale told to similar delinquents like Argentina and Pakistan. Yet, the tale of this mismanagement and the seeds of Greek Fiscal Mismanagement were laid at the very birth of the country, when one among the first major events to happen to the nation after gaining independence was also a financial crisis as it defaulted on its debts in 1826[3]. Followed by major debt defaults in 1843, 1893, 1932, and 2010 coupled with many minor eras of low growth, recession and stagflation. The long-term impact of this is seen in the table I below[4]:

[1] International Monetary Fund, *Greece: Staff Report on Request for Stand-By Arrangement*, IMF Country Report no. 10/110 (Washington, DC: International Monetary Fund, May 2010), pp. 1-17
[2] George Alogoskoufis, *Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults*, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), pp. 4-36
[3] Ibid, 4-36
[4] Carmen M. Reinhart and Christoph Trebesch, *The Pitfalls of External Dependence: Greece, 1829–2015*, NBER Working Paper no. 21553 (Cambridge, MA: National Bureau of Economic Research, 2015), pp. 4-32.

Table I

Table 2. Greece: Elements of Debt Resolution, 1826-2015

	Delay	Bonds restructured	Interest arrears	Haircut
Default of 1826-1878	53 years	£2.8 m	£10 m	between 40% (face value reduction) and 91% (incl. cancelation of interest arrears)
Default of 1893-1898	5 years	£22.3 m	£3 m	between 37% and 53% depending on asumptions. No face value reduction
Default of 1932-1964	32 years	£54.7 m	£64.5 m	between 64% (excl. interest arrears) and 86%. However, no face value reduction
Restructuring of 2011/2012	<1 year	€199.2 bn	no arrears (preemptive)	betwen 59% and 65% depending on discount rate and asumptions

Sources: Meyer, Reinhart and Trebesch (2015), Zettelmeyer, Trebesch and Gulati (2013), and sources cited therein

This is not a random occurrence, as economist George Alogoskoufis notes the Greek State has since its very inception to its great crisis in 2010 has consistently shown 2 major macro-economic imbalances: 2 centuries of consistent Fiscal imbalance and a Balance of Payments imbalance[5]. These 2 developments as Alogoskoufis observes are a result of the nature and quality of domestic political and economic institutions which determined the historical course of the Greek State and the imbalances of its economy[6].

Therefore, this study aims to take a deep dive into the underlying ideas, values, international trends, economic and social conditions which manifested in the forging of these Greek State Institutions. As Daren Acemoglu and James. A Robinson reveals, the growth of dysfunctional state institutions in developing and underdeveloped countries across the world can come about through many reasons such as the persistence of organized crime, Fascism, State Socialism and Central Planning, Religion or in the Greek case, the product of an imperial legacy[7]. A short window into the key achievements and problems facing the Greek project is showcased in this table II[8]:

[5] Ibid, 4-36

[6] Ibid, 4-36

[7] Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown Business, 2012), pp. 84-134

[8] George Alogoskoufis, *Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults*, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), pp. 4-36

Table II

Key Achievements and Weaknesses in the Emergence of Modern Greece

	Independence and State Building **1821-1898**	**National Expansion and Consolidation** **1899-1949**	**Economic and Social Development** **1950-**
Key Achievements	War of Independence State Building National Identity Constitutions and Parliamentary Democracy	Territorial Expansion Population Expansion National Consolidation	Economic Development (1950-73) Restoration of Democracy (1974) Social Development (since 1974) European Union (since 1981)
Key Weaknesses	Economic Stagnation Fiscal and Monetary Instability Debt 'Defaults' (1826, 1843,1893) War of 1897	National Schism Asia Minor Campaign Military Coups and Dictatorships Civil War Fiscal and Monetary Instability Debt 'Default' of 1932	Democratic and Social Gaps (1950-67) Dictatorship (1967-1974) Cyprus (1960, 1974) Stagflation (1979-92) Debt 'Crisis' (2010) 'Great Depression' (2010-16)

This research looks beyond the surface level explanations for Greek Fiscal Governance such as Euro zone integration, early 2000s deficit spending etc. And inspects deeper into the historical path dependence of the Greek political-economy and institutional legacies it inherited from the Ottoman Empire, it asks:

To what extent did Ottoman-era institutional structures influence fiscal policy and patterns of economic governance in Greece, and how did these legacies shape the evolution of Greek fiscal governance leading up to the 2010 financial crisis?

The thesis examines how Ottoman era institutions shaped Greece's long run fiscal governance and recurrent sovereign crises, arguing that path dependent legacies in taxation, administration and state society relations conditioned all three historical "cycles"[9] from independence to the

[9] Ibid, 4-36

2010 debt crisis. The core claim is that formally Westernized political and fiscal institutions remained embedded in informal practices and social structures inherited from Ottoman rule, producing a distinctive pattern of clientelism, weak revenue capacity and external financing dependence that repeatedly constrained Greek development and macroeconomic stability. To execute this, the thesis undertakes a structured analysis of major fiscal crisis episodes between 1821 and 2010 to test whether the 4 path dependencies demonstrate persistence, transformation or rupture under conditions of fiscal stress within each historical cycle. Therefore, the research project endeavors to purely analyze the fiscal crisis episodes to test whether the stated path dependencies exhibit "lock-in" effects, making the project a structured crisis analysis than a 2-century long analysis of Greek Economic History.

Conceptually, the thesis defines "institutions" in North's sense, as formal rules and informal constraints structuring incentives[10] and uses "Ottoman legacies" to denote enduring informal norms and organizational routines rooted in the late Ottoman fiscal military order, rather than a static set of laws[11]. "Fiscal Governance" is understood as the configuration of revenue instruments,expenditure priorities, budgetary procedures and enforcement capacities through which the state extracts and reallocates resources, including the role of external creditors[12].

The Theoretical framework builds on North's distinction between institutions (rules of the game) and organizations (players), emphasizing how historically embedded informal constraints and enforcement structures create path dependence and "lock-in"[13]. North's account of incremental institutional change, the slow adaptation of informal norms and the centrality of transaction and enforcement costs provided the basis for analyzing why formally "modern" fiscal institutions in Greece often functioned in persistently inefficient ways. The thesis uses this framework to interpret Greek state formation and later reforms as an episode of partial institutional layering rather than wholesale replacement of Ottoman patterns.

Secondly, it engages North's critique of narrow rational actor assumptions and incorporates his emphasis on bounded rationality, imperfect information and mental models to explain the

[10] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), pp. 3-11.
[11] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart, 1958), pp. 81-96
[12] George Alogoskoufis, *Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults*, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), pp. 4-36.
[13] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), pp. 107-131.

persistence of clientelism and short time horizons in Greek fiscal policy[14]. These behavioral assumptions are linked to a political economy view of fiscal institutions, in which politicians and local elites use public employment, tax exemptions and lax enforcement as patronage tools while external creditors and great powers attempt to harden budget constraints through conditionality and external control[15].

The thesis utilises crisis as an analytical instrument as structural crisis is an ideal instrument to carry out institutional path-dependence as the presence of a crisis reveals fissures and gaps within institutions. This forms the logic behind the selection of fiscal crisis as the lens to observe recurring “lock in” effects as the presence of a crisis by default reveals problems within the Greek State apparatus such as weak enforcement capacity of tax codes, limits in taxation capacity, exposes a dysfunctional political bargaining structure and excessive external dependency. It allows a feasible window of identifying how specific mechanisms (tax farming, communal mediation, patronage, external conditionality) operate at key junctures such as defaults, regime changes and international interventions. By focusing on sequences around events like the 1893 default, 1898 IFC and the 2010 crisis, it shows inherited practices are reproduced or modified.

The empirical grounding relies on regional historiography on Ottoman rule, nation-building and state formation in the Balkans as well as synthetic accounts of the Greek state from independence to the present. This provides the contextual detail needed to identify specific Methodologies Ottoman era governance patterns in Greek inhabited areas. The study systematically reads Greek, Turkish and international historiography on Ottoman governance, the Greek State and specific episodes (e.g. IFC 1898, civil war legacy, post-1974 politics) to extract recurring institutional themes and actor strategies. These qualitative materials inform the coding of “Ottoman legacies” (e.g. forms of mediation, tax practices) and their later manifestations.

It proceeds to indulge in a detailed literature review of the various academic dimensions pertaining to the research question. It details academic debates and contributions in “Ottoman History, the Balkans and Greece”, “Greek Economic History and Macro-economic Cycles”, “Post-1949 Greek Politics and Economy” and “Path Dependence, Historical Institutionalism and Other Theoretical Works”. Following which it identifies its research gap of uncovering the

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14 Ibid, pp. 3-61

15 Ibid, 107-141

relations between Greek Fiscal Governance with 18th century Ottoman feudal relations, which it espouses to contribute to and advance within wider debates surrounding Hellenic Fiscal mismanagement and the Ottoman Empire's legacy in the Balkans.

The adjoining four main chapters will then synthesize Greece's Ottoman past with its three post-independent debt cycles to answer the simple question of "to what extent" and to identify key transmission mechanisms linking Ottoman legacies to modern fiscal outcomes. The first chapter draws out four main key path dependencies from the Ottoman institutional framework in early 19th century Greece which was primarily composed of three major dimensions: 1. the fiscal-military system (The Chiflik system), 2. Centre-periphery relations and 3. the millet order. It shows how the sublime Porte governed largely through indirect rule and negotiated extraction by relying on tax farming through the provincial nobility and religious communities to mobilize revenue and maintain order rather than a uniform, impersonal bureaucracy. In this system, Orthodox Greeks were organized within the Rum millet, where the Ecumenical patriarchate and Greek dominated hierarchy enjoyed considerable religious and civil authority in exchange for guaranteeing loyalty and tax compliance, embedding a logic of communal mediation and accountability upward to the center more than downward to the subjects.

It is in such a framework that the thesis examines social structure and landholding patterns in Greek-inhabited regions such as the Peloponnese, central Greece, island communities thereby highlighting the role of Kodjabashis, armatoli/klefts and merchant shipowner elites[16]. These groups accumulated local fiscal and judicial roles under Ottoman rule, mediating between the peasants and the Porte while developing practices of rent seeking, selective enforcement and negotiated privilege that strongly influenced expectations about taxation and state authority[17]. The chapter argues that these local elites, together with communal institutions and the Church, transmitted key Ottoman fiscal norms into the independent Greek state, particularly in the reliance on intermediaries and personalized bargains in tax collections and public finance. These institutional developments together with the rupture of the Greek War of Independence in 1821 and the ensuing struggle resulted in the creation of mainly 4 key path dependencies that will significantly influence the modern Greek nation that will arise from the Ottoman Greek sanjaks (provinces), these can be surmised as:

[16] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart, 1958), 269-300
[17] Ibid, 269-300

1. Abusive Tax Farming and a broken taxation system

2. Powerful Local Primates and Communal Tax Mediation

3. Clientelist Politics and Patrimonial administration

4. External Financial Dependence over domestic capacity building

Following which, the second chapter, enters the first historical cycle from 1821 to 1898 as defined by Alogoskoufis and analyses how the Ottoman fiscal order unraveled into revolutionary governance and then into the institutions of the early kingdom. During the war of independence, insurgent authorities improvised taxation and borrowing through local committees, war loans raised in London and ad hoc levies while factional struggles between military leaders, notables and Phanariots shaped the emerging fiscal and political order[18]. After independence, Kapodistria's centralizing efforts and the Bavarian regency's imported institutions (Council of State, Court of Auditors, State accounting office) were layered onto a social structure still dominated by local notables and former intermediaries, producing tensions over land distribution, revenue extraction and the reach of the central state[19].

The thesis then treats 19th century fiscal development as a sequence of twin deficit episodes and defaults that reveal the interaction of inherited norms with new external constraints. Early recourse to foreign loans (independence loans, the 1833 guaranteed monarchy loan) and repeated sovereign suspensions (1826, 1843) entrenched external oversight and limited market access, while domestic fiscal institutions remained weak, reliant on tax farming and regressive indirect taxes[20]. Defense spending driven by the "Great Idea", combined with limited revenue capacity and clientelist use of expenditure, produced chronic budget deficits and monetary instability, culminating in the 1893 default and the imposition of the International Finance Commission in 1898 as an externally enforced fiscal governance regime[21].

The third chapter examines the second cycle from 1899 to 1949 with territorial growth, demographic shocks and intensified international exposure from the International Finance Commission settlement and Greek civil war characterizing this era of Greek State Formation[22]. The 1898 arrangement established earmarked revenues, foreign control over key monopolies and

[18] Ibid, 269-300
[19] Ibid, 269-300
[20] George Alogoskoufis, *Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults*, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), pp. 4-36.
[21] Ibid, 4-36
[22] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart, 1958), 467- 483.

customs in addition to stricter debt servicing and improved fiscal discipline at the cost of a significant loss of sovereignty and continued dependence on external capital[23]. Territorial expansion through the Balkan Wars and World War I brought large new populations, complex ethnic mosaics and integration challenges while the Asia Minor Disaster of 1922 generated a massive refugee inflow that reconfigured the social structure, land relations and fiscal demands of Greece in this period[24].

The research traces the fiscal instability, the 1932 default and interwar monetary crisis to observe its roots in the volatile political institutions of the early 20th century Greek State ("The National Schism" between the monarchy and the parliament, the various coups and authoritarian dispensations of the 1920s and 30s)[25]. Despite modernization efforts by Venizelos and others, patterns of patronage, weak direct taxation and politically driven expenditure persisted, and external arrangements (League oversight and exchange rate commitments) alternated between constraint and collapse[26]. By 1949, after the Nazi occupation and ensuing civil war, Greek fiscal institutions had acquired greater administrative reach but remained marked by distributive conflicts, shallow tax bases and a strong role for external actors in stabilization[27].

The final historical cycle from 1950 to 2010 studies the inherited governance patterns and changing external regimes that led to the developmental state and democratic transitions of the post-war period which ultimately led to the 2010 crisis[28]. From 1950 to 1973 Greece enjoyed a period of stable growth due to its inclusion in the post-war US led western alliance which gave it access to immense funding from the Marshall plan combined with the monetary stability of the Bretton Woods system[29]. Yet, the underlying tendencies of the Greek State were left unrectified as it continued with regressive taxation, extensive use of off-budget channels and selective enforcement thereby bringing no change to the innate tendency of the Greek state to offset its fiscal opacity through heavy reliance on external resources[30]. The post 1974 democratic transition further deepened welfare spending due to electoral competition, which in the absence

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[23] George Alogoskoufis, *Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults*, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), pp. 4-36

[24] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart, 1958), 467- 483.

[25] Ibid, 661-689

[26] Ibid, 661-689

[27] Ibid, 761- 801.

[28] George Alogoskoufis, *Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults*, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), 4-36.

[29] Richard Clogg, *A Concise History of Greece*, 3rd ed. (Cambridge: Cambridge University Press, 2013), pp.166 – 239.

[30] Ibid,166–239.

of a robust taxation regime and meritocratic administration translated into rapid growth of public employment, social transfers and deficits[31]. These institutional incentives were only furthered after the country's entry into the EU and Euro area in 1981, which further relaxed external limits on borrowing without resolving the entrenched weaknesses in domestic fiscal governance. Access to cheap external finance starting in the 1980s allows governments on both sides of the political aisle to smooth political polarization and sustain the clientelist distribution while postponing structural tax and administrative reforms, leading to sustained twin deficits and rising public debt[32]. Little to no change in the accumulated consequences of path dependent institutional weaknesses rooted in Ottoman era practices of mediated taxation, using public coffers for political patronage, externalized adjustments coupled with external influence exerted by international financial governance in form of the EU and 2008 recession all culminating towards the latest default of the 2010 debt crisis.

The concluding chapters, will consolidate the central path dependencies studied through the main chapters to argue that while formal institutions and international financial regimes changed repeatedly, core features such as indirect and uneven taxation, elite mediation, personalized administration and dependence on external creditors which shows a strong continuity from late Ottoman arrangements through 19th century state building, interwar crises and the euro area. At the same time, the thesis stresses that these legacies are neither deterministic nor static: critical junctures such as the 1898 IFC, the 1950s growth regimes and the 2010 crisis all opened windows for Greece to reconfigure its institutions and its outcomes also were influenced by domestic political coalitions and various external conditionalities. As a result, while Ottoman legacies shaped state formation, subsequent reform junctures could have disrupted these patterns suggesting institutional layering rather than direct continuity of trends from 19th century Ottoman Greece.

It will also draw a comparative theoretical implication for North's institutional theory and the study of fiscal states and empire, suggesting that post-imperial cases like Greece illustrate how the informal legacies of imperial governance can persist beneath successive waves of formal Europeanisation and democratization. The thesis is an exercise in economic history and aims to situate Greek development within debates on fiscal states, sovereign debt and long run growth, drawing on quantified series of revenue, expenditure debt and macro indicators from the 19th

[31] Ibid, 166-239
[32] Carmen M. Reinhart and Christoph Trebesch, The Pitfalls of External Dependence: Greece, 1829–2015, NBER Working Paper no. 21553 (Cambridge, MA: National Bureau of Economic Research, 2015), pp. 4-32.

century onwards. This allows the narrative of defaults and regime changes to be grounded in measurable trends such as twin deficits, defense spending and seigniorage. It also highlights the limits of external control mechanisms whether by Great powers, the league of nations or the EU when they do not transform underlying state-society bargains and enforcement capacities and outline avenues for further research on subnational variation, comparisons with other former Ottoman regions and the micro foundations of fiscal compliance and clientelism.

Theoretical Framework

Douglass C. North's theoretical framework forms the central spine of this research project as his examination of the nature of institutions and the way they affect economic (or societal) performance is central to any analysis of economic history and for explaining how the past has a direct bearing on the present and the future. The manifestation of this incremental institutional change is understood as "path dependence" by North who defines it as the "ways by which institutions and beliefs derived in the past influence present choices" and therefore forms an indispensable component in any academic undertaking of economic history[33]. Hence, this chapter introduces the North's revolutionary contribution of "Institutional path dependence" to economic history, the relevance of looking at economic history through the lens of institutional evolution, its centrality in explaining the long-run economic performance of nation-states and why it's the ideal approach to investigate the shadow of Ottoman institutional legacies in analysing recurring fiscal defaults in post-independent Greece. Following this, the chapter lays down the specificities of applying this framework within this research through analysis of specific variables and their operationalisation.

The role North gives institutions in shaping long-term economic performance is conceptually underpinned from the works of Brian Arthur and Paul David, the former examined the various ways by which historical events or what he calls "chance elements"[34] takes prominence over economic efficiency in determining the choice of a certain technology over another even if the chosen technology is less efficient than the one discarded, he terms this as a process of "lock-in"[35]. David exemplified this process in his study by demonstrating how manufacturers and

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[33] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), pp. 137 (switch the quotes).
[34] Steven Friedman, "Path Dependence: What It Means and How It Explains South Africa," in *Prisoners of the Past: South African Democracy and the Legacy of Minority Rule* (Cambridge: Cambridge University Press, 2022), 27.
[35] Ibid, 27-29

computer users preferred the "QWERTY" keyboard despite the invention of the "DSK" (Dvorak Simplified Keyboard) which was far more efficient and offered greater savings for producers as classical economic thinking should dictate[36]. David's analysis highlights that an inferior technology continued existing due to the continued persistence of those who wielded power (manufacturers, typists, mass consumers) deciding to retain it[37]. It demonstrated how a path-dependent sequence of "chance events" exerted great influence on the outcome as the greater entrenchment of a technology made it more difficult to remove[38]. This laid the foundations for North's understanding of the links between the political system and the economy.

North argues that just like the seemingly rational incentives of powerful actors led them to choose economically inefficient technologies, institutions that produce relatively worse economic outcomes prevail in certain societies or nations because of the continuing benefits or incentives they offer those in control of those institutions and not due to any inherent primitiveness of those societies[39]. The persistence of these inefficient or dysfunctional institutions explain the huge disparities in the performance of various economies throughout history which he constructed into an economic historical theory of institutions.

In North's own words "Institutions are rules of the game in a society", they are a form of "constraints" that humans create to manage interactions in society[40]. They could either be created in a particular event like the US constitution or could manifest as a result of gradual evolution such as the Hindu Caste System or Common Law[41]. Institutions "define" and "limit" the set of choices of individuals[42]. North understands their core function to be in "reducing uncertainty through the establishment of a stable (but not necessarily efficient) structure to human interaction"[43] yet they themselves may be constantly subject to change thereby shifting the various conventions, norms, codes of conduct, legal practices and contracts determining the functioning of a society[44].

Therefore, North postulates history to be a story of incremental institutional change as they have

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[36] Ibid, 27
[37] Ibid, 28
[38] Ibid, 29
[39] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), pp. 16, 99-104.
[40] Ibid, 3
[41] Ibid, 4
[42] Ibid, 3-4
[43] Ibid, 6
[44] Ibid, 5

provided the frameworks within which human beings establish order and are crucial in making any economic activity feasible in human society since the stability provided by institutions reduces the uncertainty that comes from engaging in exchange. North argues that institutions and the technology they employ decide "transaction and transformation costs" which is crucial in igniting economic exchange and in making it profitable. Institutions form massive linkages between the past, present and the future of humanity, these linkages are understood to be path-dependencies[45].

A path-dependency is the process by which the path of institutional change is shaped by past influences. It ensures that certain political, economic and military formations of the present and their future evolutionary direction are based on incentive structures laid down by institutions which evolved from historical trends. As per North, path-dependencies occur through "lock-in" effects, whereby a symbiotic relationship develops between stakeholders of a society and the incentive structure provided by a society's institutions[46]. This is due to the creation of a "feedback process" between human beings and the way they react to institutional change based on the available "opportunity set" (incentives)[47]. As a result the creation of path-dependencies determine if the social and economic relationships of a previous order survives into the new, making them the key to understanding the relationship between the polity and the economy[48]. This is because North's theory of institutional path dependence reveals the fact that despite great change in the formal rules of society previous economic structures and social values could be retained if the change isn't holistic or merely cosmetic[49]. As a result, the plain adoption of new economic instruments or financial policies may not bring the desired outcomes if the elites who wield power over institutions continue to rely on patterns of the past as long as they serve the interests of powerholders[50].

As per North, the most vital player in driving institutional evolution was the State as there was a continuous and symbiotic relationship between the fiscal requirements of State institutions and the need to maintain credibility among the mercantile class coupled with the citizenry[51]. He

[45] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), pp. 61
[46] Ibid, 7
[47] Ibid, 99-104
[48] Steven Friedman, "Path Dependence: What It Means and How It Explains South Africa," in *Prisoners of the Past: South African Democracy and the Legacy of Minority Rule* (Cambridge: Cambridge University Press, 2022),pp. 42-43.
[49] Ibid,42-43
[50] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), pp. 16
[51] Ibid, 48

points to the existence of a mutually interdependent relationship where rulers could only obtain required resources if taxpayers and creditors believed that the State would honour their contracts and not seize them arbitrarily[52]. Therefore, the State is a vital actor in the historical evolution of fiscal systems. He explains how this process of negotiation led to the creation of capital markets and financial institutions which enabled fiscal debt to be bankrolled through taxation and efficient capital markets[53]. Yet, the modalities through which this process takes place and the kind of balance that is struck between the State and its taxpayers and lenders differs depending on the unique institutional evolution that each State underwent[54]. North exemplifies by highlighting the divergent paths US and Latin American economic history went through as a result of institutional legacy left by British colonialism in the US and Spanish Colonialism in Latin America[55].

The system of checks and balances, secure property rights, a federalised political system that the United States found itself with was a result of the institutional framework England laid down in the 13 colonies which produced the political stability and complex impersonal exchange required for the long-term economic growth[56]. In stark contrast was the centralized, bureaucratic nature of Spanish colonial governance in Latin America which was transplanted from the Iberian peninsula that resulted in an institutional environment which was interventionist and arbitrary in nature. In his study of institutional evolution in Mexico, historian John Coatsworth characterizes 19th century Mexican governance to be of an "*arbitrary nature*"[57] which forced:

"every enterprise, urban or rural to operate in a highly politicized manner, using kinship networks, political influence and family prestige to gain privileged access to subsidized credit, to aid various stratagems of recruiting labour, to collect debts or enforce contracts, to evade taxes or circumvent the courts and to defend or assert titles to land"[58]

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[52] Ibid, 59-61
[53] Douglass C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *Journal of Economic History* 49, no. 4 (1989): 804–805, 816–817.
[54] Ibid, 806
[55] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 101-104
[56] Ibid, 101-104
[57] John H. Coatsworth, "Obstacles to Economic Growth in Nineteenth-Century Mexico," *American Historical Review* 83, no. 1 (1978): 94.
[58] Ibid, 94

Which resulted in an institutional environment where the:
"*Success or failure in the economic arena always depended on the relationship of the producer with the political authorities*"[59]

The vast divergence in economic development and political stability that is today witnessed between the US and its Latin American peers is in North's observation a consequence of the path-dependencies colonial institutions left in both places, with the former's institutions being capable of encouraging and properly reaping long-term economic gain while the latter's produces neither political stability nor proper utilization of modern technology[60]. It demonstrates that the State is a vital actor in building and changing fiscal/ economic systems along with market forces. North typifies this by tracing the rise of modern market mechanisms and innovations in early modern Netherlands with the fiscal needs of the Dutch State, whose State institutions chose to meet its requirements through the growth of long-distance trade and commerce[61]. Its immigration friendly policies, privileges for financial houses and use of methods which reduced uncertainty of engaging in trade all contributed to the development of large-scale capital markets and lowered the risk of engaging in trade thereby attracting businessmen, bankers and financiers which developed the State's ability to access debt albeit through constant negotiation[62].

North crystallizes his conceptual paradigm into 4 major features which make institutional analysis central to the study of economic history:

1. Economic and political models are deeply entrenched in specific institutional constraints that vary over time and across countries. Institutional constraints inform the margins at which entities such as firms, trade unions, political parties and bureaucracies along with many other organizations operate[63]. The incentives created by these constraints determine whether their efforts are channelled into activities that maximize productivity or unproductivity[64]. North argues that countries become poor or fail due to the incentive structures their institutions are trapped in which may emphasize rent-seeking over economic growth and not because they are inherently

[59] Ibid, 94
[60] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 115-117
[61] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 43, 66, 114–115
[62] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 43, 58–59, 121–127
[63]Ibid, 3–10
[64]Ibid, 73-84

inferior to developed nations. Hence, studies of economic or political structures must be institution specific, they should take into account the institutional context within which their studies are being done and the institutional structure of the economy or polity there theories are gonna be applied into regardless of whether its a low-income country in the 20th century, an advanced capitalist democracy in the 21st century or a trading republic in the 17th century.

2. Institutional analysis via historical path-dependence challenges many behavioural assumptions underpinning the social sciences (particularly economics) because the standard economic assumptions of efficient markets based on rational choice merely expects that all the major actors involved have a complete picture of the political-economy, about their own circumstances and also has to capacity to act rationally with full autonomy[65]. In reality, information about the political-economy is costly and is imperfectly processed depending on the institutions involved. Individuals do not have access to the full picture of the world they operate in or have complete knowledge of the various costs and benefits or alternatives involved. It's the institutions that operate in his society that is responsible for managing and lowering the cost of transacting this information, this creates vast differentiations in how individuals interpret their environments based on the institutional constraints that exist in that particular State[66]. North isn't arguing for a complete abandonment of economic assumptions like rational choice, instead he is qualifying it with the complexities of human motivation and differentiations in individual perceptions which make institutions both the shapers of and responders to the way actors perceive and respond to their world.

3. Ideas and ideologies matter for outcomes, institutions that condition them and decide the extent to which they matter[67]. They are the "mental constructs" that individuals use to interpret reality and to make various choices in their lives[68]. Institutions set the costs and benefits of acting on these ideas or whether to integrate one particular ideology into its workings or to discard it completely. North explains that mechanisms like voting systems, elections etc. allow various agents to integrate their own ideas or ideologies into institutional structures or to express preferences and influence decisions. Institutions filter and channel the impact of ideas by raising the cost of individuals to act on their beliefs through setting up various constraints or lower the cost of individuals to act on their beliefs and thereby increase ideologically driven behaviour[69].

[65]Ibid, 111
[66] Ibid, 111
[67] Ibid, 111
[68] Ibid, 111
[69] Ibid, 111

4. Finally, North insists that the polity and the economy are inextricably linked, the economic performance of any State is directly tied to its underlying institutional setup[70]. He posits that institutions decide the "exchange relationships" between the two and therefore the direction in which political-economy moves towards[71]. State institutions are not merely legal decorations that just provide a neutral backdrop, they decide the nature of proprietorship, the incentive structures of the economy and hold a chokehold over the national income, spending rules, the taxation regime and accompanying regulatory frameworks[72]. Therefore, historical path-dependence moves beyond just an ad-hoc recognition of political and historical events when studying economics and instead develops a full-fledged understanding of how specific institutional arrangements and the legacies they produce through path-dependence influence contemporary political-economy processes and the rules governing political and economic exchange.

North grants utmost centrality to path-dependence in making sense out of long-run economic changes since its an approach that links microlevel economic activity with the macrolevel incentives set by an institutional framework[73]. This framework is subject to incremental change if the organizations and the agents controlling these institutions stand to benefit from acquiring new skills, knowledge and information[74]. If they experience increasing returns from maintaining or furthering the current institutional setup in the current path then it lays a path dependence[75]. This explains the existence of inefficient institutions or why some institutional frameworks remain stable for years while others are being constantly broken and constructed. Path-dependencies can tenaciously hold on despite radical political changes such as revolutions, national independence or territorial changes if they continue to offer massive increasing returns to institutional powerholders[76].

Yet it is important to distinguish path-dependence from determinism, since North cautions against drawing the conclusion that certain countries are doomed to fail due to their institutional framework as path-dependence is also subjective to changes, reservals and even alternative

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[70] Ibid, 112
[71] Ibid, 112
[72] Ibid, 112
[73] Steven Friedman, "Path Dependence: What It Means and How It Explains South Africa," in *Prisoners of the Past: South African Democracy and the Legacy of Minority Rule* (Cambridge: Cambridge University Press, 2022), 25–30
[74] Ibid, 30-33
[75] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 94-104
[76] Steven Friedman, "Path Dependence: What It Means and How It Explains South Africa," in *Prisoners of the Past: South African Democracy and the Legacy of Minority Rule* (Cambridge: Cambridge University Press, 2022), 42–43

institutional paths can be laid[77]. Critical junctures of crisis or major socio-economic changes, periods of political transition all present opportunities for powerholders to either preserve or shift existing institutional patterns[78]. In some cases the elites of the old order could be entirely replaced by a new class of institutional powerholders who benefit from laying new institutional paths thereby eliminating prior path-dependencies[79]. In some other cases, it could yield the opposite effect with power changing hands to new hands but with the institutions remaining the same which does not change prior economic patterns[80]. Therefore, path-dependencies aren't rigid continuous channels that accelerate societies towards their contemporary picture; instead they may experience serious reversals due to the alterations resulting from the above-mentioned changes.

The critical argument North contends with is the illusion of expecting miraculous changes from tweaking institutions, the installation of a formal electoral system, constitutions, parliaments etc. will not magically diminish corruption if those who maintain the patterns and values of socio-economic life benefit from keeping the informal patterns which "locks-in" corruption[81]. This is very relevant to the realities faced by post-independent Greece as the Great Powers (England, France and Russia) installed a Bavarian monarchy under the leadership of King Otto, staffed heavily by German officials with the explicit aim of building a modern European State. As seen in detail during the later chapters, the monarchy directly imported European norms and regulations, created a centralized bureaucracy, a modern officer corp, new legal codes and a uniform municipal structure but they remained largely on paper. These state of the art formal institutions did not enhance economic performance or produce developments that the German officials hoped since they had marginal effect on informal rules, values and socio-economic structures[82]. Institutional path-dependencies laid by centuries of Ottoman provincial administration persisted as the *Armatoloi*[83] and *Klephts*[84], regional notables and local war leaders responded with brigandage, corruption, tax evasion, periodic revolts and the evasion of

[77] Ibid,41-42
[78] Ibid,42-43
[79] Ibid,42-43
[80] Ibid, 26
[81] Ibid, 42
[82] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 29–35; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," 11–13; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 665–670.
[83] Armatoloi were irregular soldiers, or militia, commissioned by the Ottomans to enforce the sultan's authority within an administrative district called an *armatoliki*
[84] Klephts were highwaymen turned self-appointed armatoloi anti-Ottoman insurgents, and warlike mountain-folk who lived in the countryside when Greece was a part of the Ottoman Empire. They were the descendants of Greeks who retreated into the mountains during the 15th century in order to avoid Ottoman rule. Klepht bands also included many ethnic Albanians. They carried on a continuous war against Ottoman rule and remained active as brigands until the 19th century.

conscription.

As a result, the economic and political trajectory of the Greek kingdom continued being characterised by fiscal weakness, recurrent unrest and ultimately in Otto's overthrow. The failure was not a lack of sophisticated formal institutions but their failure in supplanting the norms of personal loyalty, expectations of patronage, the underlying land revenue system etc. whose path-dependencies created the above mentioned "lock-in" effects. Instead, to break the path-dependence of powerholders requires a shift in the balance of power within the institutional framework. Groups that are adversely affected by unproductive institutions are to challenge the powerful interests that benefit from these institutions and the resulting re-writing of the social contract creates the pre-conditions for new growth and development[85]. This means a holistic change in the enforcement mechanisms, the way enforcement is carried out, the norms of behaviour within the formal and informal institutions of a society among other reforms[86]. Hence, path-dependence is to be understood as a complex picture of patterns that constantly influence the directions institutions steer towards and the direction it steers towards depends on the agents who hold the reins over society and economy.

The key insight this entails is that patterns and powers that were thought to have withered away could always be reawakened partially or fully if the framework through which powerholders see societal problems and solutions require the reinstatement of old patterns. Consequently, patterns established in a political regime may be rejected by a new regime only to be revived when its reign ends. This is a recurring theme in Greek economic history as despite repeated and radical transitions in the type of government over the course of two centuries: absolute monarchy, constitutional monarchy, military rule, parliamentary democracy etc. Greece was plagued with the same macro-economic imbalances it had at the outset of independence, a Fiscal imbalance and a Balance of payments imbalance. Thus, the utilisation of Northian theory is the most ideal in analysing the various conditions, channels and constraints through which the lock-in effects of Ottoman path dependencies echo in the fiscal policies of post-independent Greece. Ensuring that despite formal institutions and international financial regimes changing repeatedly, core path dependencies from the Ottoman era such as indirect and uneven taxation, elite mediation, personalized administration and over-reliance on external creditors kept locking in Greek fiscal

[85] Steven Friedman, "Path Dependence: What It Means and How It Explains South Africa," in *Prisoners of the Past: South African Democracy and the Legacy of Minority Rule* (Cambridge: Cambridge University Press, 2022), 42–43
[86] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 3–6, 83–84

governance through 19th century State building, interwar crisis and the Euro Area meltdown in 2010.

Methodologies, Definitions and Operationalising Variables

In order to discover Ottoman institutional legacies in Greek fiscal governance, the study adopts a mixed analytical design that combines quantitative analysis of economic data with qualitative analysis of primary and secondary historiography from early 19th Ottoman Greece and post-independent Greek fiscal history. Quantitatively the study draws on a long-run series of public revenues, expenditures, deficits and debt from the 19th to early 21st century such as the preliminary reconstructions of Greek public finances by Kammas and Koutentakis, national accounts from Kostelenos et. al. coupled with monetary and exchange rate statistics from Lazaretou's work, long-run studies of Greek debt by Reinhart and Trebesch coupled with other statistical sources such as the Bank of Greece's historical datasets. This is further enriched by Ottoman land and tax records from the works of Inalcik, Stavrianos and Patronis which together allows the reconstruction of the evolution of the tax structure, spending composition, monetary regimes and proprietorship patterns from the late Ottoman period through independence and into the post war and Euro era.

On the qualitative front, the research engages with primary and secondary historiography on Ottoman governance in the Balkans, Greek State formation and the political economy of modern Greece. They are vital to understand systems of tax farming, communal mediation and the influence of external financial control. Firstly, they form a coherent picture of the Ottoman feudalism in early 19th century Greece characterised by mainly the Timar and Chiflick systems, the state of provincial administration and the rent-seeking classes of phanariots in the imperial centre and local elites (*kodjabashis*). Later historical works on the war of independence, the Bavarian regency, 19th century defaults, the 1898 International Finance Commission, interwar stabilization and crisis, the post-1949 developmental state till the Euro area crisis showcase continuities and changes in the underlying practices of taxation, expenditure and external borrowing. This mixed design permits the construction of a long-run fiscal narrative anchored in measurable indicators: twin deficits, inflation, external debt, economic growth etc. while interpreting those indicators through the key variables of Ottoman institutional legacy and Greek fiscal governance.

To utilise these variables for the inspection of Ottoman path-dependencies the research project is broadly structured using North's comparative historical institutionalism to construct the institutional framework of early 19th century Ottoman Greece maintained through the Empire's institutions in taxation, its land revenue system, provincial administration and state-society relations. Consequently, this analysis yields the major path-dependencies that formed as a result of Ottoman rule which are then understood as the "Ottoman institutional legacies" of post-independent Greece. Drawing on the theoretical works of North and historical scholarship, "Ottoman institutional legacies" are operationalized as a bundle of observable features such as the empire's tax farming practices, communal mediation of taxation, blurred fiscal roles of local elites and patrimonial administrative norms rooted in late Ottoman rule over the contemporary borders of Greece that forms the imperial legacy the Empire left at the outset of Greek fiscal governance. "Greek fiscal governance" is defined as the evolving configuration of institutions and practices through which the Greek state has extracted, allocated and financed public resources comprising its tax structure, expenditure priorities, budgetary procedures, enforcement capacities and modes of accessing external finance. This variable will be operationalized through measurable indicators of a State's fiscal architecture such as the size and composition of fiscal deficits, indirect and direct taxes, degree of reliance on tax farming practices, spending portfolio, episodes of seigniorage financed inflation and the management of external debt.

This allows for a defined set of characteristics whose survival and transformation as path-dependencies will be traced across three major historical cycles of Greek fiscal governance identified by eminent economist George Alogoskoufis: Cycle I from 1821 to 1898, Cycle II from 1899 to 1949 and Cycle III from 1950 to 2010[87]. Alogokoufis's reconstruction of Greek fiscal and external accounts show repeated episodes of heavy foreign currency borrowing under conditions of high capital mobility, protracted current-account deficits and limited monetary autonomy culminating in 5 major instances of sovereign debt crisis in 1826, 1843, 1893, 1932 and 2010[88]. The thesis aims to inspect these crises for lock-in effects drawing on North's insight that path-dependent institutional setups lock-in poorly performing paths by rewarding State institutions for rent-seeking, maximizing external dependence and unproductive economic activities evidenced by two centuries of sustained external imbalances, mismanagement of foreign currency debt, increased exposure to exogenous shocks, shallow reserves and sudden stops in capital inflows that force a sharp adjustment in the economy through an external debt

[87] George Alogoskoufis, *The State and the Economy of Modern Greece Key Drivers from 1821 to the Present*, GreeSE Paper no. 184 (London: Hellenic Observatory, London School of Economics, 2023), 3

[88] George Alogoskoufis, *Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults*, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), 4-6

crisis.

For each instance of crisis, the study constructs the preceding fiscal and external trajectories using quantitative analysis of the data on deficits, debt, inflation and current account balances following which it examines whether and how earlier Ottoman path dependencies manifest in the proximate causes and institutional responses. It traces the underlying institutional framework of the Greek State in the instance of each crisis, looking for the presence of path-dependencies as evidence of "lock-in". Highlighting how late Ottoman institutional legacies of consistent political fragmentation, patronage-based expenditure, inept taxation, safeguarding elite privilege, concessions to local magnates led to Greek policymakers repeatedly using external borrowing to compensate for weak government revenues, to finance political projects (war, welfare expansions and white elephant projects) and for offering temporary solutions than thorough restructuring of institutions thereby linking Greece's series of external debt crisis recurrence to institutional lock-in rather to purely conjunctural shocks.

The theoretical relationship between Greece's long-run institutional failures and its long history of financial crises is explored by the study of Reinhart, Trebesch and Rogoff whose works note the stark similarities in Greek borrowing patterns, they note that the country has been in a state of external default for about 50%[89] of its years since independence and that all of its painful periods of debt defaults in the 1820s, 1840s, 1890s, 1930s and the early 2000s were external debt defaults[90]. They define an external debt default to be the *"outright default on a government's external debt obligations, that is, a default on a payment to creditors of a loan issued under another country's jurisdiction, typically denominated in a foreign currency and typically held mostly by foreign creditors"*[91] which forms only a part of an entire "debt default episode" lasting 7 years, which is the entire timeframe encompassing the ordeal of going through a sovereign debt default[92]. It is made up of two components, the first being the specific year in which default occurs while the second is the 3 years preceding and 3 years succeeding the default date combining to form an ideal type for analysing the various institutional indicators around the crisis on a consistent basis throughout the 5 Greek debt default episodes comprising 3 historic cycles.

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[89] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 316
[90] Ibid, 315-316
[91] Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press, 2009), 10
[92] Ibid, 11-12

Such an occurrence of *"multiple sovereign defaults on external or domestic public (or publicly guaranteed) debt, or both. These defaults may occur 5 or 50 years apart and they can range from wholesale default to partial default through rescheduling"*[93] is termed to be a "serial default"[94].

Countries that experience serial defaults are characterised by Reinhart and Rogoff to have "debt intolerance"[95] which is a *"syndrome in which weak institutional structures and a problematic political system make external borrowing a tempting device for governments to employ to avoid hard decisions about spending and taxing"*[96] and it is particularly acute for non-advanced economies according to Reinhart and Rogoff. They argue that debt intolerance is relatively higher for non-advanced economies who then undergo a cycle of loss in market confidence, spiraling interest rates on external government debt and deep political resistance to paying back their foreign creditors. Their study shows debt intolerant countries to be non-advanced economies with debt to GDP ratios of above 60% making them increasingly likely to default[97].

Reinhart and Rogoff's definitions and conceptual paradigm establishes that Greek debt has an entrenched institutional nature with the country taking upwards of 100% of its GDP in foreign debt during all of its debt default episodes[98]. Making Greece a serial defaulter with deep debt intolerance and striking historical parallels as each debt default episode is marked by a prelude of heavy borrowing from foreign countries followed by booming and reckless spending, consistent current account deficits, large fiscal deficits ending in a sovereign debt crisis and prolonged periods of backed-up debt obligations coupled with externally supervised financial autarky. Reinhart and Trebesch propounds that it puts Greece in historic cycles of debt intolerance marked by external debt and dependence with Reinhart pinpointing the genesis of debt intolerance to factors such as institutions, corruption and governance than surface level explanations like differences in ratios of capital to labour etc.[99] This confirms Alogokoufis's historical logic where each cycle reconstructs sequences linking inherited Ottoman patterns to

[93] Ibid, 17
[94] Ibid, 17
[95] Ibid, 29
[96] Ibid, 29
[97] Ibid, 22-29
[98] Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press, 2009), 21–29; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 312–15
[99] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–26; Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press, 2009), 21–29.

specific episodes of fiscal stress and sovereign debt crisis.

Within each cycle, the taxonomy laid down by Reinhart, Rogoff and Trebesch illuminate the contours through which the thesis aims to analyse each specific debt default episode as it treats each external debt crisis as a “lock-in” test of Ottoman path dependencies as they are critical junctures of debt intolerance marked by underlying institutional fragility as outlined by Reinhart and Rogoff. The thesis then assesses the extent to which Ottoman derived patterns were reproduced, transformed or attenuated within each debt default episode by using North’s theoretical lens to detect increasing returns, learning and institutional layering of Greek fiscal governance within that particular debt default episode.

This methodological approach allows the thesis to coherently create an theoretically guided yet empirically falsifiable, orderly and feasible scope to link Ottoman institutional legacies with Greek fiscal policy across 3 historic cycles using quantitative analysis and qualitative process tracing. It sets sail through early 19th century Ottoman Greece using regional historiography and available economic record to specify core path dependencies. They are then traced into the first cycle (1821-1898) by examining the fiscal policies of the first national government under Kapodistrias and the debt default episode of 1826, the Bavarian regency and the debt default episodes of 1843 following which Ottoman-derived mechanisms are traced into the second cycle (1899-1949) which inspects the debt default episode of 1893 and the International finance commission of 1898. It then examines the inter-war period and the debt default episode of 1932. Finally in the third cycle (1950-2010) the thesis tracks the influences of these path-dependencies in the post-war developmental state, the stagflation of 1979-92, booming welfarism under democratic regimes and the default episode of 2010. The thesis tests for lock-in effects at critical junctures of debt intolerance which are the sovereign debt crisis (1826, 1843, 1893, 1932 and 2010) for assessing the extent to which late imperial patterns account for Greece’s recurrent fiscal fragility culminating till 2010. Its objective is to answer the central research question as well as contribute to Northian institutionalism by illustrating the enduring power of path-dependent institutional constraints in post-imperial state formation.

Literature Review

The Ottoman Empire, Balkans and the Greek State

The Historiography of late Ottoman rule in the Balkans primarily revolves around the evolution of the empire's imperial institutions, the nature of the economic foundations upholding them and the implications it had for various Balkan societies under Ottoman rule. Literature focusing on the Greek provinces within the Balkan milieu concerns itself with debates over impacts the Empire's decline had in setting the preconditions for the emergence of a national consciousness. Pivotal among them is historian Richard Clogg's "*A Concise History of Greece*" who argues that the porte's millet system while granting autonomy to its various non-muslim subjects also embedded them in a hierarchy of inferiority and coercion[100]. He emphasizes the role the Empire's institutional actors such as the Orthodox Church, the phanariots, the janissaries, the Klefts (bandits romanticized as resistance) and the armatoloi had in shaping Greek political culture at the eve of independence and post-1821[101]. Ozan Ozavci's investigates this further in his work "*The Ottoman Imperial Gaze: The Greek Revolution of the 1821-1832 and a New History of the Eastern Question*" where he similarly frames the Greek revolution as part of a broader imperial and diplomatic crisis, stressing that Greek revolt cannot be understood as a purely national event detached from Ottoman and international power politics[102].

This is set in a larger academic debate on how to interpret Ottoman decline in the 19th century where multiple historians shed light on the plurality of fiscal, military and administrative constraints that eroded Istanbul's authority over the Balkans. Lampe and Jackson's "*Balkan Economic History, 1550 - 1950*" deeply analyzes the agrarian decay plaguing the Ottoman State in the Balkans, arguing that as the Timar system was ousted in favour of the Chiflick system towards the late 16th century, it bounded peasants into effective serfdom trapping them into inefficient feudal estates yielding limited surpluses[103]. Sevket Pamuk traces this process in detail by situating Ottoman fiscal institutions in a comparative framework within his work "*The*

[100] Richard Clogg, *A Concise History of Greece*, 3rd ed. (Cambridge: Cambridge University Press, 2021), 9–13.
[101] Ibid,15
[102] Ozan Ozavci, "The Ottoman Imperial Gaze: The Greek Revolution of 1821–1832 and a New History of the Eastern Question," *Journal of Modern European History* 21, no. 2 (2023): 223–224.
[103] Lampe, John R., and Marvin R. Jackson. *Balkan Economic History, 1550–1950: From Imperial Borderlands to Developing Nations*. Bloomington: Indiana University Press, 1982, pp. 26–33.

Evolution of Fiscal Institutions In The Ottoman Empire, 1500- 1914" where he draws an extensive picture of the Empire's tax farming arrangements relative to the Mughal and Safavid Empires. He argues that the Empire was necessitated to shift away from the Timar system as rising internal and external challenges pressurised Istanbul to collect an ever increasing portion of the agrarian surplus[104]. These novel attempts in tax collection and revenue sharing failed to produce results as state revenue actually declined due to tax farmers converting their lands into hereditary feudal holdings thereby intensifying and proliferating Ottoman feudalism across the Balkans[105]. This argument is reinforced by Pamuk's extensive primary source analysis of Ottoman fiscal records in collaboration with K. Kivanc Karaman in the vital work of "*Ottoman State Finances in European Perspective, 1500 -1914*" which showcases the Empire's fiscal lag as revenues fell stagnant between 1523 to 1788 due to provincial intermediaries like tax farmers showcasing the chiflick system's failure to boost yields[106]. L. S Stavrianos's "*The Balkans since 1453*" reinforces this argument in addition to linking Ottoman feudalism to the emergence of agrarian distress in Greece fuelling revolts, brigandage and peasant oppression in the 19th century[107].

Vasilis Patronis on the other hand presents a dual legacy of Ottoman rule in Greece through his landmark work *"Greek Economic History: Economy, Society and State in Greece (18th-20th century)*" where Greece witnessed substantial economic and social transformation in the late 18th to early 19th century. Greek merchants, shipping magnates and administrative elites rapidly expanded their influence within the Empire's imperial framework while feudal chiflicks burdened the peasantry with tithes and debts thereby birthing the pre-conditions for the rise of a national consciousness[108]. Ayse Y Evrensel and Tiffany Minx's "*An institutional approach to the decline of the Ottoman Empire*" also attest to this as they posit Ottoman decline to be a result of institutional lock-in effects from the devshirme system (Christian to Muslim elites breeding corruption) and tax farming which locked in institutional inefficiencies[109].

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104 Şevket Pamuk, "The Evolution of Fiscal Institutions in the Ottoman Empire, 1500–1914," pp. 20–22.
105 Ibid, 20-22
106 K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 597–600.
107 L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 138–140.
108 Vasilis Patronis, *Greek Economic History: Economy, Society and State in Greece (18th–20th Century)* (Athens: Association of Greek Academic Libraries, 2015). 47-58
109 Ayşe Y. Evrensel and Tiffany Minx, "An Institutional Approach to the Decline of the Ottoman Empire," *Eastern Economic Journal* 39, no. 2 (2013): 206-208

Greece’s Fiscal History and Macro-Economic Cycles

The fiscal history of modern Greece is traced meticulously by John Alexander Levandis in “*The Greek Foreign Debt and the Great Powers 1821 - 1898*” where he details Greece’s early descent into indebtedness and defaults through the 1824-25 independence loans leading to the 1826 default as result of mismanagement and for funding the anti-Ottoman resistance[110]. The 1833 guaranteed loan serviced these prior debts but defaulted in 1843[111] due to fiscal mismanagement prompting creditor intervention via the Piraeus blockade (1854-57) and fixed annuities[112]. He draws out a clear picture of the domestic political failures and tax inadequacies which drove Greece towards predatory borrowing with the Great Powers[113]. This is taken forward by Dr. Michael Waibel’s work “*Echoes of History: The International Finance Commission in Greece*” which examines the 1893 default and the imposition of the International Finance Commission (IFC) in 1898 by the Great Powers[114]. He notes the various similarities between the 1989 IFC and the troika formed after Greece’s default in 2010[115]. Chrysanthakopoulos et al.’s important research into the “*Fiscal cyclicality, war and bankruptcies in Greece, 1833-1939*” quantitatively analyses the role of spending on primary outlays (such as military spending), tax buoyancy and other factors in Greek debt defaults till the debt crisis of 1932[116]. They debate expansion’s dual legacy where episodes of revenue gains and unchecked spending are studied aside episodes of bankruptcies and subsequent austerity.

While Alan S Blinder narrates the 2007-10 recession in his pivotal work “*After the music stopped: The Financial crisis, the response and the work ahead*” where he frames Greece and its sovereign crisis in 2010 in detail thereby exposing the Greek State’s reckless fiscal policy, currency manipulation, EU bailouts, the massive imposition of austerity and the subsequent institutional fallout[117]. Such institutional aspects of Greek debt is worked on by George Alogoskoufis whose research works such as “*The Twin Deficits, Monetary Instability and Debt*

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[110] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 1–28
[111] Ibid, 41
[112] Ibid, 29-44
[113] Ibid, 44-54
[114] Michael Waibel, “Echoes of History: The International Financial Commission in Greece,” pp. 11–15
[115] Ibid, 22-23
[116] Christos Chrysanthakopoulos, Franciscos Koutentakis, and Athanasios Tagkalakis, “Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939,” *KEPE Discussion Paper* No. 160 (2024), 5
[117] Alan S. Blinder, *After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead* (New York: Penguin Press, 2013), 383–403

Crises in the History of Modern Greece" and "*The State and the Economy of Modern Greece: Key Drivers from 1821 to the present*" investigates Greek Fiscal governance through institutional cycles. Alogokoufis delineates three major fiscal cycles starting from 1821-1898, 1899-1949 and finally 1949-2010[118]. He argues that Athens has persistently maintained low domestic savings, overdependence on foreign capital and amplifying cycles where deficits triggered inflation or defaults when markets closed[119]. Reinhart and Trebesch's work "*The Pitfalls of External Dependence: Greece 1829 - 2015*" further reinforces this as they identify 4 major external defaults, each characterized by a borrowing bonanza, a massive fiscal default and bailouts replacing private debt but prolonging over via conditionality[120].

Theoretical Works on Historical Path-dependence

The Academia on historical path-dependence largely interrogates certain key debates that emphasize either the deterministic aspects of path-dependence or the factors that provide agency away from path-dependence. Scholars such as Douglass C North and Scott E Page stress the inescapable influence of "lock-in" effects via bargains which is further extended through the works of economists like Daren Acemoglu, Abhishek Banerjee and Nathan Nunn whose invaluable scholarship showcase the tremendous impact colonial institutions had on social formations while academicians such as Ha-Joon Chang and Dani Rodrik offer a more sceptical understanding. Their research showcases that path-dependence and its "lock-in" effects can be minimal or could be greatly reversed via policy while also putting greater emphasis on omitted variables such as geography who possess a greater influence over institutional evolution than path-dependence.

Douglass North's foundational work on path-dependence in *"Institutions, Institutional Change and Economic Performance"* provides a robust framework for understanding how initial institutional configurations generate increasing returns that lock economies into divergent trajectories, often perpetuating inefficiencies despite shocks or deliberate reforms. North defines path dependence as enduring influence of past formal rules (constitutions, laws) and informal constraints (norms, ideologies) on present and future choices, arising from transaction costs that

[118] George Alogoskoufis, *The State and the Economy of Modern Greece Key Drivers from 1821 to the Present*, GreeSE Paper no. 184 (London: Hellenic Observatory, London School of Economics, 2023), 3
[119] Ibid,7-9
[120] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* 46, no. 2 (Fall 2015): 9-29

render exchange costly[121]. He understands institutions to serve the interests of a society's dominant actors rather than the most efficient outcomes due to certain self-reinforcing mechanisms within these institutions such as learning effects, effects of coordination networks, adaptive expectations and setup costs[122].

North's framework was formalized to understand path-dependence as a result of imperial legacies and colonialism by Daren Acemoglu and James A Robinson in "*The Colonial Origins of Comparative Development: An Empirical Investigation"* whose comparative research highlights contrasts inclusive institutions in the USA and Australia which greatly protected private property to countries like the Congo whose extractive institutions explains the contemporary disparity between both[123]. Abhishek Banerjee used the same framework in *"History, Institutions and Economic Performance: The Legacy of Colonial Land Tenure Systems in India"* to empirically showcase the influence British land revenue systems in colonial India and the insecure incentives it produced has on the modern orientation of the country[124]. Nunn's *"The Long-Term Effects of Africa's Slave Trade"* works on the African slave trade and its long-term historic effects also stands as a remarkable contribution to furthering institutional path-dependence[125]. Charles Tilly historicizes state coercion in his work "*Coercion, Capital and European States, AD 990-1990"*, arguing that protection selling states monopolized violence, capital coercion bargains yielded capital-intensive paths (like in Genoa, Netherlands) while coercion intensive paths (like in France and Prussia) explains fiscal capacity divergences between European States[126]. Landmark works on institutional path dependence and evolution of fiscal capacity include "*Taxation and Democracy"* by Sven Steinmo who trace the historic evolution of taxation in democratic states, he uses the case studies of Sweden, the USA and Britain to argue that democratic enfranchisement correlates with progressive taxes with societal elites being forced to reform political institutions to the masses in order to raise greater revenues[127].

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[121] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 92-104, 98
[122] Ibid, 94-99
[123] Daron Acemoglu, Simon Johnson, and James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91, no. 5 (2001): 1369–1401, esp. 1369–1371, 1395–1401.
[124] Abhijit Banerjee and Lakshmi Iyer, "History, Institutions, and Economic Performance: The Legacy of Colonial Land Tenure Systems in India," *American Economic Review* 95, no. 4 (2005): 1190–1213, esp. 1190–1191, 1209–1211.
[125] Nathan Nunn, "The Long-Term Effects of Africa's Slave Trades," *Quarterly Journal of Economics* 123, no. 1 (2008): 139–176, esp. 139–143, 171–176.
[126] Charles Tilly, *Coercion, Capital, and European States, AD 990–1990* (Cambridge, MA: Basil Blackwell, 1990), 67–95, 103–126.
[127] Sven Steinmo, *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State* (New Haven: Yale University Press, 1993), 1–13, 50–79, 193–210.

Mark Blyth analyze “Great Transformations” in his work “*Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century”* where he traces U.S welfare retrenchment via path-dependent feedback (lock-in via voter habits), yet elite agency exploited contingencies to roll them back. Yet, Blyth is cautious to point out that such great transformations were a result of structural changes to power and were not inevitable[128]. Chang also exposes major nuances of path-dependence in his work “*Kicking Away the Ladder: The “Real” History of Free Trade”* where he points out that role of infant industry protection, state intervention and import substitution in the industrialisation process of countries like the USA and not institutional path-dependencies resulting from having free markets[129]. Similar results appear in the work of Herman M Schwartz’s *“State versus Markets: The Emergence of a Global Economy”* where he frames the modern global economy as being substantially State-led and not the result of neoliberal market institutions mechanisms like secure property rights, rule of law etc[130]. These debates collectively assert the path-dependence as increasing returns to power-embedded institutions, illuminating this research and its quest to uncover Greece’s Ottoman fiscal inheritance explaining divergence not as inevitability but as agency tied to bargains, shocks and opportunities thereby forming an ideal research gap for this thesis.

A focused research gap exists as works on Greek economic history emphasize the economic restructuring of the Greek provinces under Ottoman rule with a special focus on the decline of older agrarian and urban patterns after conquest, the persistence of political subordination, and the formation of new commercial networks consisting of shipping and artisanal production[131]. At the same time, Ottoman fiscal literature explains the rise and gradual decentralization of the Empire’s revenue structure through timar and the succeeding chiflik systems yet associated historiography treats these as problems of state capacity, war finance and administrative change and therefore requires greater emphasis on how it defines later Greek fiscal life specifically[132]. This study therefore aims to uncover the linkages between the Ottoman Empire’s feudal fiscal

[128] Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002), 3–16, 17–47, 251–272.
[129] Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002), 1–8, 19–51, 125–142.
[130] Herman M. Schwartz, *States versus Markets: The Emergence of a Global Economy*, 3rd ed. (Basingstoke: Palgrave Macmillan, 2009), 1–10, 11–42, 198–218.
[131] Richard Clogg, “Ottoman Rule and the Emergence of the Greek State, 1770–1831,” in *A Concise History of Greece*, 14–20.
[132] Kivanç Karaman and Şevket Pamuk, “Ottoman State Finances in European Perspective, 1500–1914,” *Journal of Economic History* 70, no. 3 (2010): 624–626

arrangements in its Greek holding to the later development of Greek fiscal governance as a historically conditioned institutional outcome.

Historical path dependence supplies the conceptual bridge that links both scholarly literatures and treats Greek fiscal governance not as an isolated post-1821 development but as the product of an underlying institutional layering rooted in Ottoman feudal relations and imperial fiscal intermediaries. Academic scholarship on these linkages are rich but segmented, historiography on the Ottoman empire's fiscal position in the early 19th century rightly identifies the mechanisms through which extraction worked, studies by Pamuk[133], Karaman[134] and Inalcik[135] all show that the Empire's revenue extraction was centered on tax farming through the chiflik system with centralization being repeatedly undermined by local power holders creating entrenched provincial elites. Greek historiography also showcases the transformation of Greece under this Ottoman fiscal order as economic historians like Patronis point out the degradation of the Sultan's central authority to powerful military administrators whose arbitrary exercise of local authority disrupted urban life, reduced commercial autonomy and pushed much of the Greek agrarian population to de-facto serfdom while cities became a site of administration and revenue extraction rather than production[136]. At the same time, economic studies on the modern Greek economy's fiscal instability and its multiple debt cycles from the 1820s all the way to 2010 also point to the absence of reliable taxation systems, clientelist political institutions marked by corruption, weak accountability from the political class and an economy geared towards rent-seeking tendencies over productive investment etc. as foundational influences to the 2 century long boom-bust debt cycles of Greece[137].

At the confluence of these bodies of scholarship is an analytical gap that needs to explain the uneven terrain on which modern Greek fiscal governance was built atop the social and political preconditions left by Ottoman decline and the subsequent struggle for independence within the Greek provinces. This thesis attempts to advance towards this gap since the institutional environment inherited from four centuries of Ottoman rule produced particular fiscal and

[133] Şevket Pamuk, "The Evolution of Fiscal Institutions in the Ottoman Empire, 1500–1914," pp. 4–8
[134] Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 600–603, 620
[135] Halil İnalcık, "State, Land and Peasant," in *An Economic and Social History of the Ottoman Empire, 1300–1914*, ed. Halil İnalcık and Donald Quataert (Cambridge: Cambridge University Press, 1994), 103–132;
[136] Vasilis Patronis, "The Economic Regeneration of the Greek Lands in the Eighteenth Century," in *Greek Economic History: Economy, Society and State in Greece (18th–20th Century)*, pp. 41–46.
[137] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* 46, no. 2 (2015): 316–329; and Christos Chrysanthakopoulos, Franciscos Koutentakis, and Athanasios Tagkalakis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939," 22–24.

property relations that later conditioned the Greek State's own governance and its resultant cycles of debt defaults. The thesis aims to integrate the above mentioned scholarly literature on late Ottoman fiscal institutions, the political-economy of 19th Ottoman Greece and modern Greek debt cycles to explore whether the mechanisms of Ottoman revenue arrangements lay dormant, persisted, mutated or were strategically repurposed in succeeding Greek fiscal governance through a single path-dependent sequence. Identifying this gap advances an additional approach to studying the evolution of the modern Greek polity as many of its contemporary characteristics were not created *ex nihilo* after independence but instead emerged from an imperial order whose feudal and fiscal relations had already structured incentives, authority and extraction for centuries.

Ottoman Era Fiscal Structures in early 19th Century Greece

"Fair Greece! sad relic of departed worth! Immortal, though no more…"

- Lord Byron, *Childe Harold's Pilgrimage*

Understanding the Fiscal Architecture of the Ottoman Empire

On the eve of modern Greek State formation in the opening years of 19th century, all of its territory that today belongs to the country fell within the borders of the Ottoman Empire, which had been standing at the crossroads of Europe, Asia and Africa for over 5 centuries commanding a vast dominion encompassing the Black Sea region, the shores of the Red Sea till Yemen, Syria, Mesopotamia, Egypt stretching out across the North African coastline till the Maghreb[138]. The fiscal institutions and policies of this behemoth were shaped by the priorities and interests of its central administration sitting in Istanbul located within its core territories of the Balkans and Anatolia[139]. The empire was predominantly rural and agrarian but also held significant artisanal and mercantile classes, specialised textile, shipping and handicraft manufacturing in its cities[140] along with important raw materials like Iron, Copper, Timber, wool etc. managed by a stratum of administrative officials in Istanbul, military officials, provincial functionaries, judges, religious

[138] Halil İnalcık and Donald Quataert, eds., *An Economic and Social History of the Ottoman Empire, 1300–1914* (Cambridge: Cambridge University Press, 1994), 1–2

[139] Şevket Pamuk, "The Evolution of Fiscal Institutions in the Ottoman Empire, 1500–1914," 1–2.

[140] Halil İnalcık and Donald Quataert, eds., *An Economic and Social History of the Ottoman Empire, 1300–1914* (Cambridge: Cambridge University Press, 1994), Chapter 8 "Istanbul and the Imperial Economy," pp. 179–217; Chapter 9 "International Trade," pp. 218–255

scholars, affluent merchants, bankers and other notables who formed the elite of the Empire[141].

This impressive momentum and expansion was sustained for over 2 and a half centuries through robust ruling institutions whose engine was the Timar system as it shaped the Ottoman State's finances, its military apparatus, the administrative edifice and economic development[142]. The vast holdings of the Empire were divided into "timars" or semi-public lands which the Sultan granted to his provincial functionaries or "sipahis" as military fiefs[143]. The "sipahi" was responsible for administrating, policing and collecting revenue from the assigned lands[144]. The size of the Timar assigned varied based on the Timar-holder's rank in the Empire's bureaucracy from a hamlet of several houses for the typical Timar-holder to large areas consisting multiple villages for provincial governors, members of the imperial household, the Sultan' advisors etc[145].

As historian William W McGrew notes, although "sipahis" held administrative jurisdiction over the "timar" lands they could not inherit them as they were merely responsible for collecting the centrally assigned taxes and send a designated portion to the Ottoman treasury following which they allocate the remaining revenues to equip and prepare a designated numbers of troops and cavalry for military campaigns and then enjoy a portion for their personal upkeep[146]. This organisation of revenue extraction were understood as fiscal-military systems and were the linchpins of early modern empires like the Ottomans, the Saffavids of Persia who had the "Iqta" system and India's Mughal empire who had the "mansabdari" system[147]. As Karaman et al. deduces, it allowed these Empires to completely discard having separate systems of fiscal, provincial and military management by linking military officials directly to provincial administration[148]. Revenues could be collected in kind or cash making them very flexible to adopt across diverse regions with varied levels of monetization and they could be easily replicated and set up allowing for rapid expansion and administration of territory[149].

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141 Şevket Pamuk, "The Evolution of Fiscal Institutions in the Ottoman Empire, 1500–1914," pp. 1–2, 36–37;
142 John R. Lampe and Marvin R. Jackson, *Balkan Economic History, 1550–1950: From Imperial Borderlands to Developing Nations* (Bloomington: Indiana University Press, 1982), 24.
143 L. S. Stavrianos, *The Balkans since 1453* (New York: Rinehart & Company, 1958), 83–84.
144 Ibid, 139
145 K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 598–600.
146 William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881: The Transition in the Tenure and Exploitation of Land from Ottoman Rule to Independence* (Kent, OH: Kent State University Press, 1985), 23
147 Coercion, Capital, and European States, AD 990–1990 (Cambridge, MA: Basil Blackwell, 1990), 67–95.
148 K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 594–599.
149 John R. Lampe and Marvin R. Jackson, *Balkan Economic History, 1550–1950: From Imperial Borderlands to Developing Nations* (Bloomington: Indiana University Press, 1982), 24-25

The Timar system was the most vital, consistent and largest source of revenue extraction in Ottoman lands primarily consisting of rural and agricultural dues in addition to being the backbones of its military as the provincial functionaries recruited, supplied and maintained the bulk of the Empire's armed forces until the 19th century[150]. A large part of the tax revenues was spent to maintain the Empire's military machine which was key to its rapid expansion[151] but increasingly came under pressure during long periods of war starting in the second half of the 17th century[152] when its frontiers stopped advancing, its victories diminished, its armies needed to increase in size[153] and its adversaries were established powers like Austria, Russia, Spain and Persia instead of the minor feudal principalities in the Balkans and Anatolia or declining sultanates like the Egyptian Mamluks[154]. Historian L. S Stavrainos characterizes this perfectly as he considers the Empire to be a military machine that was:

"*Oragnised for conquest and expansion but it now entered a period of defeat and contraction. The result was internal tension and dislocation. This increased the disparity between the Empire and the West, which in turn led to more defeats, more contraction and more internal difficulties"*[155]

The tale of Ottoman decline and its related historiography is extremely complex, contested, nuanced and is subject to several key debates challenging previous conceptions of a linear decline in favour of periods of reorganisation and uneven transformations. The late Ottoman Empire's imperial structure was subjected to military reversals throughout the late 17th, 18th and 19th centuries. The Sublime Porte increasingly faced setbacks on the battlefield most famously in the second siege of Vienna in 1683 when its borders were permanently pushed back across the Hungarian plains to the Danube after a crushing defeat to a coalition of central and eastern European states[156]. It faced crushing blows in most wars that took place in the 18th and early

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[150] Linda T. Darling, *Revenue-Raising and Legitimacy: Tax Collection and Finance Administration in the Ottoman Empire, 1560–1660* (Leiden: E.J. Brill, 1996), 24–30, 55–63;Halil İnalcık, "Military and Fiscal Transformation in the Ottoman Empire, 1600–1700," *Archivum Ottomanicum* 6 (1980): 283–287, 294–299.
[151] John R. Lampe and Marvin R. Jackson, *Balkan Economic History, 1550–1950: From Imperial Borderlands to Developing Nations* (Bloomington: Indiana University Press, 1982), 26.
[152] Halil İnalcık, "Military and Fiscal Transformation in the Ottoman Empire, 1600–1700," *Archivum Ottomanicum* 6 (1980): 283–287
[153] Lampe and Jackson, *Balkan Economic History*, 26.
[154] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 119–132.
[155] Ibid, 136
[156] K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 603–607

19th centuries against Russia and Austria[157] while its eastern frontiers barely changed despite waging continuous and costly campaigns against Persia[158], its naval power had long been limited to the Eastern Mediterranean after the Battle of Lepanto in 1571 and its sway over Indian Ocean trade evaporated as European powers like the Portuguese, the Dutch, the French and the English became the carriers of Indian Ocean trade starting in this period[159].

With its enemies closing in on all frontiers the Empire found itself in a position where it was unable to match the military power of its adversaries in the size of the armies it fielded, the technological capabilities of its troops or in the discipline and morale of its armed forces[160]. Studies by military historians like Virginia H Aksan, Gabor Agoston and Rhoads Murphey all point out a long-term fundamental shift in Ottoman military performance as the Empire could not increase the size of its armies while its European peers greatly expanded their troop capacities in the 18th century[161]. Even where it did there were fundamental gaps in military organization and technology with the West as Stavrianos notes that although the number of the elite Janissary units had increased from 12,000 during the reign of Sultan Suleiman the Magnificent to over 100,000 troops by 1825 less than 2,000 of latter was actually properly trained making the only standing army in the Empire a useless fighting force while the cavalry troops dropped from over 200,000 during Suleiman's time to just over 25,000 troops by the 18th century, the regular infantry was badly equipped and rarely paid on time[162]. Ottoman officials like Mehmed Pasha give deplorable accounts of the indiscipline of the imperial armies in the 18th century:

"Practicing brigandage, they are not satisfied with free and gratuitous fodder for their horses and food for their own bellies from the villages they meet. They covet the horse-cloth and rags of the rayas [peasants], and if they can get their hands on the granaries they become joyful, filling their sacks with barley and oats for provisions and fodder. While they behave in this way and make thus a habit of ruin, setting themselves to harm and oppress, the sighs and groans of

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[157] Virginia H. Aksan, *Ottoman Wars, 1700–1870: An Empire Besieged* (London: Routledge, 2007), 83–167, 270–361.
[158] Rhoads Murphey, *Ottoman Warfare, 1500–1700* (London: UCL Press, 1999), xviii–xix.
[159] Şevket Pamuk, *The Ottoman Empire and European Capitalism, 1820–1913* (Cambridge: Cambridge University Press, 1987), 18–19, 23–30.
[160] Virginia H. Aksan, *Ottoman Wars, 1700–1870: An Empire Besieged* (London: Routledge, 2007), 129–167, 180–198, 343–361; Rhoads Murphey, *Ottoman Warfare, 1500–1700* (London: UCL Press, 1999), 185–190.
[161] Virginia H. Aksan, *Ottoman Wars, 1700–1870: An Empire Besieged* (London: Routledge, 2007), 129–167, 180–198, 343–361; Rhoads Murphey, *Ottoman Warfare, 1500–1700* (London: UCL Press, 1999), 35–64, 185–190; Gábor Ágoston, *Guns for the Sultan: Military Power and the Weapons Industry in the Ottoman Empire* (Cambridge: Cambridge University Press, 2005).
[162] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 122

mankind attain the heavens and it is certain that they will be accursed."[163]

Such a rapid deterioration in Ottoman military strength vis-a-vis leading European States is the greatest signifier of its fiscal impotencies. Karaman et al argues that the shift in the empire's military balance of power is due to a shift in its fiscal capacities, he points out that the Empire's central administration collected revenues that exceeded every major European state barring France and Spain in the 16th century but by the 18th century was lagging behind even Austria and Prussia which reflects with happened in the battlefield[164].

Table III

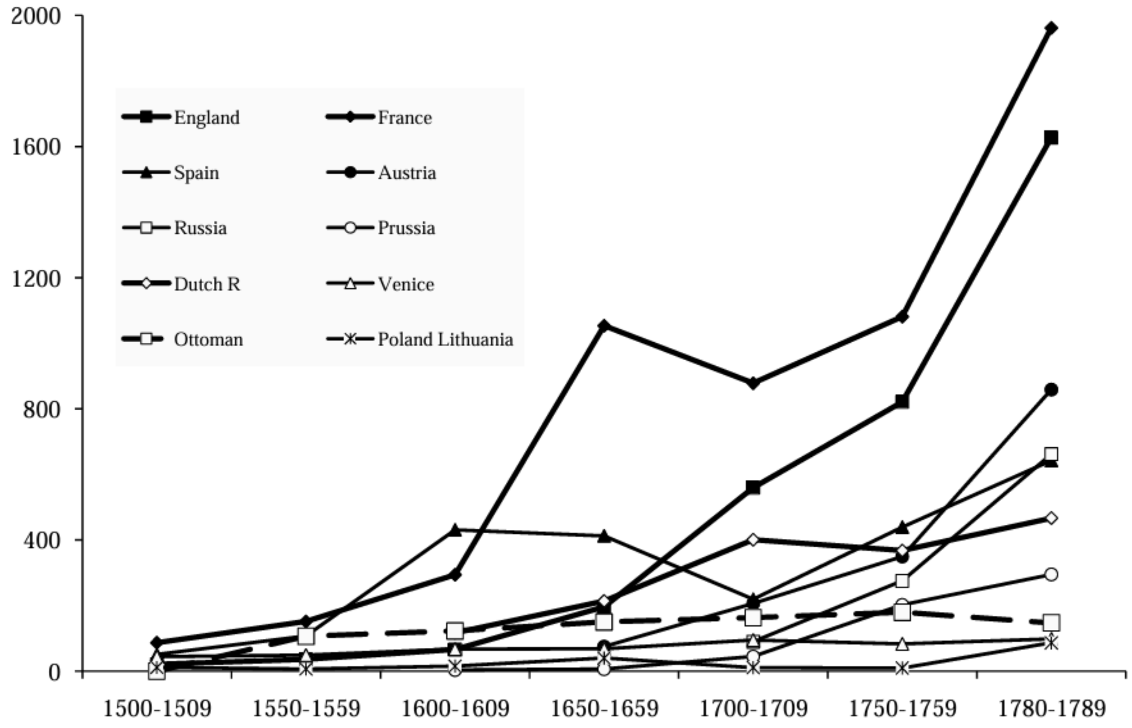

FIGURE 4
ANNUAL REVENUES OF EUROPEAN STATES
(10-year averages in tons of silver)

An analysis of archival records through Table III uncovers the fact that Ottoman central revenues were barely higher in the 1780s relative to the 1560s while a large gap emerged between the total

[163] Ibid, 123
[164] ¹ K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 603–612.

revenues of most European States and those of the Ottomans[165]. Karaman et al. postulates that this low fiscal capacity of the Ottoman central administration in the 18th century is a major cause in the vast disparities of military technology as well as the absence of discipline amongst imperial armies since the Empire was increasingly unable to train, supply, equip or pay them in time and as fiscal gap grew wider Ottoman military performance faltered[166]. The failure of the imperial system to contend with growing fiscal pressures and subsequent military defeats is made clear when analysing the receipts of the central treasury in Istanbul between 1523 and 1788 in Table IV[167].

Table IV

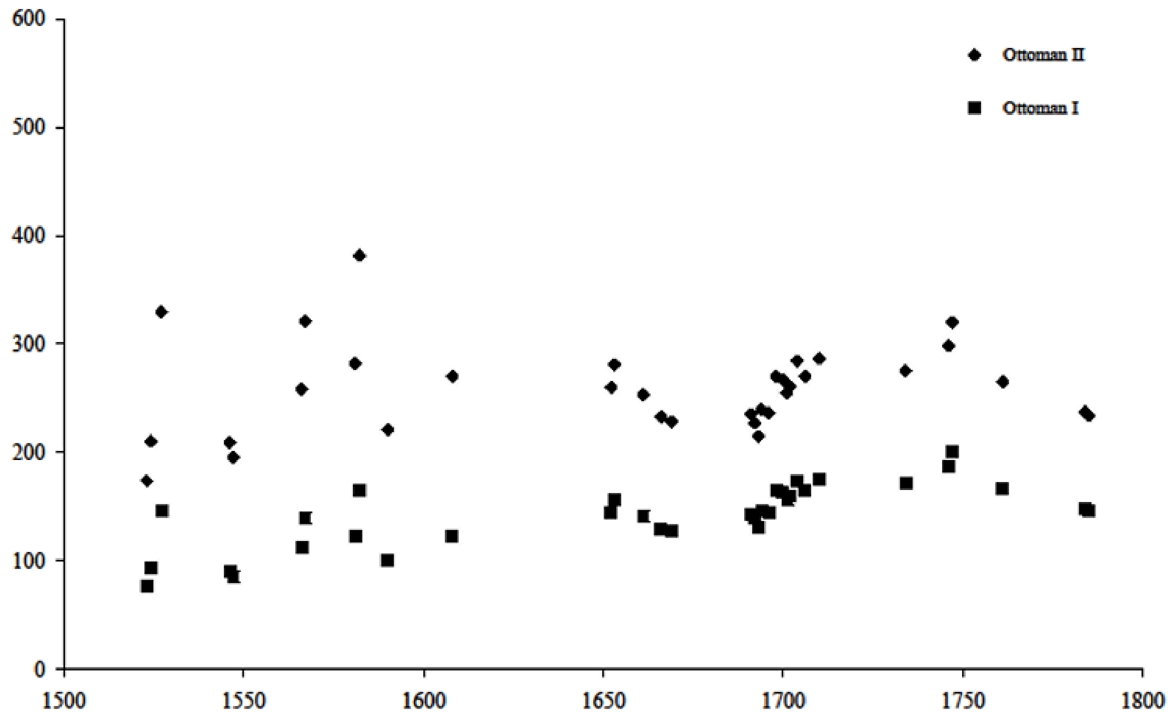

FIGURE 1
REVENUES OF THE OTTOMAN CENTRAL ADMINISTRATION
(in tons of silver)

[165] See http://www.ata.boun.edu.tr/sevketpamuk/JEH2010articledatabase.
[166] K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 603–612; Virginia H. Aksan, *Ottoman Wars, 1700–1870: An Empire Besieged* (London: Routledge, 2007), 180–198; Rhoads Murphey, *Ottoman Warfare, 1500–1700* (London: UCL Press, 1999), 185–190.
[167] See http://www.ata.boun.edu.tr/sevketpamuk/JEH2010articledatabase.

The first series titled Ottoman I represents the direct cash receipts into the Imperial treasury such as the extraction of annual tributes from vassal states, plunder from territorial expansion, *mukataa* taxes which were monetary taxes in urban areas such as customs dues, commercial taxes and income from monopolies such as mints, saltworks, mines and agricultural dues, war taxes also called *Avariz* and *Cizye* a monetary head tax paid by the non-muslim population of the Empire etc. The second series titled Ottoman II is the sum of Ottoman I and the tax revenues obtained from the Timar system from the Empire's provinces. Such a close inspection makes it clear that even around the turn of the 19th century the Ottoman central State was collecting revenues at or below the levels of the early 16th century[168]. Karaman et al. points out that around the turn of the 17th century the central administration was increasingly unable to extract revenues from the empire's provinces through the Timar system and this incapability produced the glaring fiscal and military differences between the Ottoman Empire and its European adversaries that were able to collect more revenue and enjoy military success[169]. They achieved this through establishment of efficient and centralized systems of taxation and this fiscal centralization allowed the relatively centralized European states to seize an increasing share of resources as taxes and fund massive centralized military forces[170]. Historians like Halil Inalcik argue that this process of monopolization and centralization of fiscal and military forces was absent and instead the Ottoman Empire entered a period of fiscal decentralisation as its institutional backbone; the Timar system entered a state of deterioration and eventually broke down[171]. Since the fiscal system is directly linked to provincial administration this also resulted in political decentralisation. As McGrew puts forth, this particular development of later Ottoman rule was "a significant cause of its ultimate collapse" in Greece as the decay of Ottoman land revenue systems and its replacement with new fiscal practices unleashed the institutional forces that the independent Greek State inherited when it rose from the Ottoman Empire in 1833[172].

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[168] K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 604
[169] Ibid, 598-600, 600-610
[170] K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 600–603, 607–610.
[171] Halil İnalcık, "Military and Fiscal Transformation in the Ottoman Empire, 1600–1700," *Archivum Ottomanicum* 6 (1980): 283–287.
[172] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881: The Transition in the Tenure and Exploitation of Land from Ottoman Rule to Independence* (Kent, OH: Kent State University Press, 1985), 40

The Crisis Of the Timar System: Ottoman Fiscal Fabric in 19th century Greece

Economic historians like Vassilis Patronis conceptualise that the 10 Greek provinces within the Empire inherited a political-economy whose basic structures had been formed earlier but whose contradictions had become sharper by the eve of the Greek war of independence and in the final phases of Ottoman rule in the Balkans[173]. Ottoman Greece remained overwhelmingly agrarian and the system of land revenue, its associated tax structure and local institutional framework shaped the social fabric and distribution of wealth within Greek society. Patronis argues that by the 19th century, the Ottoman city functioned primarily as a center of administration and power while the rural countryside served as the principal productive space that sustained the imperial order[174]. This asymmetry meant that the countryside generated resources while urban Ottoman authorities and intermediaries consumed them, creating a structural imbalance that framed the economic experience of Greek populations[175].

Scholars like McGrew and Patronis emphasize that the weakening of the Ottoman central administration and rising decentralising tendencies of provincial magnates gradually worsened the position of the peasantry. The weight of taxation increased through a wide range of indirect and extraordinary levies in addition to the formal set of poll taxes and other dues attached to cultivation[176]. Stavrianos connects Ottoman decline with the spread of irregularity in tax collection, police abuses and greater exactions imposed on the rural peasantry from a decaying institutional environment. The economic world of Ottoman Greece therefore combined agricultural production with insecurity, making extraction rather than developmental investment

[173] Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 21–23.
[174] Ibid, 14
[175] Ibid, 13-15
[176] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 10–16, 21–27; Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 21–23.

that defined the logic of fiscal governance[177].

Patronis paints the picture of a stratified economy where Greek merchants, shipowners and diaspora communities taking advantage of rising Ottoman trade with Western Europe in the late 18th to early 19th century while cash crop production of cotton, silk, olive oil and other goods also proliferated through regions like Thessaly, the Peloponnese and Macedonia[178]. Yet these commercial developments offered little security to property or enterprise as the Empire's political framework was increasingly unable to regulate predation, guarantee contracts or preserve confidence among merchants and producers[179]. This reflects other agrarian studies in 19th century Greece as population movements reflected this contrast, studies show a migration by sections of Greeks to mountain settlements and Greek islands from the Greek plains in response to warfare, insecurity and landlordism thereby producing a social divide between latifundia zones and relatively freer upland communities[180]. At the turn of the century, Greece was not a coherent economic unit within the Empire but was instead a fractured agrarian space in which estate agriculture and coercive extraction proliferated in the rural milieu while commercial shipping and artisanal energies often emerged more strongly outside the most tightly controlled lowland regimes[181].

Such a broad frame of Greece is essential for understanding why fiscal institutional change had such a profound political consequence. As the Timar-landholding system eroded, the state lost one of its principal means of balancing military needs, provincial authority and peasant protection and this deterioration affected not only landholding but also the moral legitimacy of Ottoman rule in Greek society. By the 19th century, economic life in Ottoman Greece was marked by commercialization without security, taxation without accountability and agrarian production increasingly subordinated to local magnates, tax farmers and estate holders as the imperial order declined[182] with the Timar system in favour of the chiflik system[183].

[177] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 135–141.
[178] Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 34–37.
[179] Ibid, 14-16
[180] Ibid,15
[181] Ibid, 37
[182] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985),40
[183] Ibid, 30

The Timar system which had originally linked land revenue to military service and rested on a controlled relationship between the Ottoman central state, the “sipahi” and peasant cultivator[184]. Under this imperial order, the peasant retained hereditary use-rights to the land while the sipahi held only the right to collect specified revenues in return for military obligations and imperial law sought to define and limit exactions[185]. Stavrianos characterizes this arrangement as a system in which strict state supervision of the timar-holder prevented both the unchecked exploitation of the peasantry and the political autonomy of provincial military holders. In its ideal form, therefore the Timar was not simply a fiscal advice but an institutional compromise between the imperial military needs and minimum security for the agrarian population[186].

As this structure degenerated from the mid 17th century due to the weakening of central authority which allowed the timar-holder and other provincial actors to disregard the non-hereditary character of fiefs and to press beyond the customary limits imposed on peasant dues[187]. Another cause was the end of the sustained territorial expansion as the empire was increasingly unable to distribute new timar lands to its military dependents and patrons while plunder dried as the empire’s rapid territorial expansion slowed and its borders crystallised[188]. Rising military setbacks and displaced officials, functionaries, cavalrymen among others sought livelihoods in the remaining Balkan provinces, pressure on existing timars intensified, holdings were subdivided or usurped and legal protections for cultivators became increasingly fragile[189].

A further element in this transformation of the Empire’s fiscal-military system was the introduction of new revenue extraction strategies. Patronis notes that capital in the Ottoman world was strongly oriented towards the rental of tax revenues, trade and lending, revealing an economy in which access to fiscal rights had become a major avenue of accumulation[190]. Even where the formal language of the Timar land revenue system was present in legal documents, the logic of governance was shifting away from service-bound military fiefs toward monetized and privatized claims over revenue streams. This transition encouraged officeholders, bankers and

[184] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 139–141.
[185] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 25
[186] Ibid, 139-141
[187] Halil İnalcık, "Military and Fiscal Transformation in the Ottoman Empire, 1600–1700," pp. 294–299.
[188] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 139
[189] Ibid, 139
[190] Βασίλης Πατρώνης, «Η “Οικονομική Αναγέννηση” του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 16–20

other local notables to treat fiscal rights as assets to be exploited rather than duties tied to a tightly supervised imperial contract[191].

Karaman et al. notes that as fiscal rights became objects of private appropriation the institutional rapidly corroded across the Empire and especially in the Balkans which also included Greece[192]. McGrew argues that the state no longer disciplined its intermediaries with the same effectiveness and the peasantry increasingly lost the limited but meaningful protections embedded in the earlier system[193]. The old balance between the military service, provincial authority and the peasant's legal rights gave way to a regime in which revenue claims could be layered, inherited, farmed out and enforced by actors whose connection to the center was increasingly opportunistic. By the 19th century, the crisis of the Timar system had therefore become a wider crisis of Ottoman fiscal institutions in Greece: the Empire still extracted but it no longer governed extraction through stable norms that could command local legitimacy[194].

Consequences of the Breakdown of Ottoman Fiscal Institutions

From Timar to Chiflik in the Fertile Plains

The most consequential impact from the Timar breakdown in Ottoman Greece was the spread of the Chiflik system across fertile lowland regions. Stavrianos states that chiflik gradually replaced Timars throughout the plains of the Peloponnesus, Thessaly, Macedonia, Thrace, the Maritsa Valley and other riverine basins within the Balkans[195]. He treats this process as one of the most important effects of Ottoman decline on everyday life in the peninsula. Patronis also notes that hereditary manorholding succeeded the earlier timar framework and continued to expand with the weakening of central power, especially in areas tied to commercial agriculture. The significance of this transformation lay not only in changing ownership forms but in altering the legal and social status of the cultivator[196].

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[191] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 28-30

[192] K. Kıvanç Karaman and Şevket Pamuk, "Ottoman State Finances in European Perspective, 1500–1914," *Journal of Economic History* 70, no. 3 (2010): 598-603

[193] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 37

[194] Halil İnalcık, "Military and Fiscal Transformation in the Ottoman Empire, 1600–1700," *Archivum Ottomanicum* 6 (1980): 294–299; Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 14–15; L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 135–141.

[195] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 141

[196] Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 17–18.

Through this new chiflik regime, the landholder possessed land as effectively hereditary property and could impose tenancy arrangements with far fewer restraints than the old sipahi faced. The peasants no longer enjoyed the same protections as preventions against forceful evictions and other predatory terms from the landholders were no longer abided. Stavrianos describes a common pattern in which the crop was assembled, the state share deducted, seed set aside and the remainder divided yet in practice the tenant often retained only about a third after the claims of tax farmers and estate managers were met[197]. Debt then deepened dependency because peasants borrowed from landlords for subsistence, animals and tools, turning nominal tenancy into de-facto serfdom[198].

This system spread especially in those very plains that were agriculturally most valuable. As Patronis notes, Thessaly and Macedonia became major zones of manor expansion and demographic stagnation and in Stavrianos as core regions of chiflik prevalence tied to cotton and maize production for export[199]. The Peleponnesus underwent agrarian consolidation as fertile plains became large estates and where later agrarian questions survived into the Greek kingdom. Thrace, with its underpopulated and poorly cultivated tracts described by travelers, presents perhaps the starkest image of how estate expansion, insecurity and depopulation could coexist[200].

The broader institutional effect of the spread of chifliks was to privatize coercion within an imperial shell. The State, still taxed but actual power over labor, rents and local discipline moved more decisively into the hands of estate holders and those who managed their fiscal claims. This undermined the older Ottoman model in which the center theoretically stood above provincial interests and limited their encroachments. In 19th century Greece, the fertile plains thus became a site where declining imperial sovereignty was translated into intensified landlord

[197] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 105–107.
[198] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 39
[199] Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 15, 17; L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 104–107.
[200] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 104–107; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 3–12, 21–27; Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 14–15.

domination[201].

Rise of local magnates and the aristocratic nature of local politics

The breakdown of fiscal institutions also elevated local intermediaries whose authority rested on control of taxation, patronage and communal representation. In the Greek lands these figures are often identified as “kodjabashis” , “archons” or “primates” and their power grew within the spaces opened by Ottoman administrative decay[202]. While some communities selected such officials in relatively participatory ways, others were dominated by self-perpetuating oligarchies. As a result, local politics assumed an increasingly aristocratic character with influence clustered in the hands of families able to mediate between the peasantry and the state[203].

These magnates derived strength from more than social prestige alone because the Ottoman system delegated many practical functions of communal management to recognized local leaders, men who could collect taxes, negotiate with officials and represent Chrsitian populations became indispensable to both the rulers and the ruled[204]. As central institutions weakened, the bargaining power of such intermediaries increased, since imperial authorities depended ever more heavily on them to keep revenue flowing and order minimally intact. Patronis’s discussion of the commercialization of Greek society before 1821 also indicates that large landowners, financiers, merchants and officeholders could overlap socially, reinforcing local hierarchies through combined control over land, money and office[205]. The social consequences were double-edged as on the one hand, local magnates could shield their communities from the worst forms of arbitrary interference by negotiating collectively with Ottoman officials. On the other hand, their embeddedness in the fiscal order encouraged them to become beneficiaries of the very structures that oppressed the rural population. Stavrianos observes that popular resentment did not target Turks alone, but also rich Chrsitian oligarchs and monastery elites, a reminder that local Christian dominance could itself become a source of exploitation. Aristocratic local politics in Ottoman Greece therefore emerged not outside imperial decline but from within the decentralized and revenue hungry order produced by that decline[206].

[201] Halil İnalcık, “Military and Fiscal Transformation in the Ottoman Empire, 1600–1700,” *Archivum Ottomanicum* 6 (1980): 294–299; L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 104–107; Βασίλης Πατρώνης, «Η “Οικονομική Αναγέννηση” του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 14–15, 17.
[202] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 37
[203] Richard Clogg, *A Concise History of Greece*, 2nd ed. (Cambridge: Cambridge University Press, 2002), 10–18
[204] Ibid, 13-16
[205] Βασίλης Πατρώνης, «Η “Οικονομική Αναγέννηση” του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 18–20.
[206] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 104–110.

At the eve of independence these kodjabashis and other notables had become one of the established elites of Greek society. Richard Clogg points out that these Greek magnates such as the Kodjabashis and the phanariots, higher clergy, wealthy merchants and provincial notables were often too comfortably integrated into the Ottoman status quo to identify wholeheartedly with radical nationalism[207]. Their political style was shaped by negotiation, patronage and oligarchic competition rather than by representative accountability. The collapse of a more regulated fiscal order had thus not democratized the provinces but had strengthened aristocratic brokerage as the normal grammar of local rule.

Breakdown of imperial checks and balances

A central feature of the timar order had been the existence, at least in principle, of the installment of many imperial checks on provincial abuse. The Timarholder was not the outright owner of the land, peasant obligations were defined by law and custom and the state retained disciplinary authority over officeholders who failed in their duties. When this framework decayed, the erosion of oversight was immediate and far-reaching. Patronis explicitly links the worsening condition of Christians to the arbitrariness of pashas and officials once decentralizing tendencies strengthened after the great conquests[208].

These developments had severe fiscal implications as an expanding array of regular and extraordinary taxes weighed on cultivators while new informal exactions appeared and older dues became more onerous. Stavrainos's evidence from 19th century Macedonia and Thessaly shows that tax and tithe collectors, police forces and estates proprietors all exploited the weakening of accountability with peasants suffering especially from these irregularities[209]. McGrew's research shows that what had once been an efficiently bounded system of extraction became layered predation as multiple intermediaries drew income from the same cultivator[210].

The Empire's institutional decomposition also affected the moral authority of the State as Ottoman rule had historically justified itself by offering order, communal autonomy and a degree of predictable hierarchy but declining institutions could no longer sustain that bargain

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[207] Richard Clogg, *A Concise History of Greece*, 2nd ed. (Cambridge: Cambridge University Press, 2002), 21–24.
[208] Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 14–15.
[209] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 105–110.
[210] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 40

convincingly[211]. The rise of provincial warlords within the Empire such as Ali Pasha[212] were only nominal subjects behaving de-facto as independent rulers which signaled how far actual sovereignty had drifted from the center. As authority became fragmented among pashas, janissaries, magnates, tax farmers and estate holders who abuse of the system went from being the exemption to being the rule as unaccountability among local powerholder became systemic.

Such a deficit of accountability at every level of the Ottoman administrative machinery in Greece meant that peasants could no longer rely on the center against local oppressors because the center itself had become dependent on revenue extractions by those same intermediaries[213]. Even Church and communal leaders as Patronis shows were riddled with bribery signalling a wider pattern of institutionalized corruption that mirrored the State's fiscal capacity[214]. In 19th century Greece therefore, Ottoman decline was experienced less as mere military weakness than as the collapse of any credible system for restraining administrative elites.

Fracturing State-Society Relations

The decay of Ottoman institutions contributed to fragmentation State-Society relations as Greece fractured deeply due to the old imperial arrangement having never rested on equal citizenship, but it had offered certain communal autonomies and predictable hierarchies that enabled coexistence within a mult-confessional empire. When landlordism, abusive taxation, arbitrary policing and administrative corruption intensified, the gap between ruled and rulers widened into a crisis of legitimacy. Stavrianos records widespread abandonment of holdings and villages in many lowland regions while Patronis shows that earlier movement away from plains towards mountains and islands left lasting marks on Greek social fabric[215]. Such mobility was not simple demographic but political, because it reflected an effort by rural populations to escape

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[211] Βασίλης Πατρώνης, «Η “Οικονομική Αναγέννηση” του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 14–15; L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 135–141; Richard Clogg, *A Concise History of Greece*, 2nd ed. (Cambridge: Cambridge University Press, 2002), 8–12.

[212] Ali Pasha (1743 – 24 January 1822), commonly known as Ali Pasha of Yanina or Ali Pasha of Tepelena, was an Albanian ruler who served as Pasha of a large part of western Rumelia. Under his rule, it acquired a high degree of autonomy and even managed to stay *de facto* independent. The capital of the Pashalik was Ioannia, which, along with Tepelena, was Ali's headquarters.

[213] K. Kıvanç Karaman and Şevket Pamuk, “Ottoman State Finances in European Perspective, 1500–1914,” *Journal of Economic History* 70, no. 3 (2010): 598–603, 607–610.

[214] Βασίλης Πατρώνης, «Η “Οικονομική Αναγέννηση” του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 14–15.

[215] L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 106–108; Βασίλης Πατρώνης, «Η “Οικονομική Αναγέννηση” του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 15–17.

institutions that would extract without protection. The expansion of brigandage and outlaw traditions which Stavrianos presents as rooted in peasant desperation under the Chiflik order and administrative decay, further demonstrates the breakdown of normal channels of mediation between State and Society.

In addition to depopulation and flight, another expression of this rupture is the rising stratification between elite accommodation and popular discontent. Phanariots, higher clergy, the Kodjabashis and wealthy merchants could still function within the Ottoman order and often had incentives to preserve it[216]. Yet merchants exposed to Western Europe increasingly resented insecurity of life and property, while peasants and tenants suffered directly from estate exploitation and tax abuses. This divergence meant that Greek society did not move uniformly toward nationalism but Ottoman decline gradually made the imperial order appear less defensible across an expanding range of social groups.

The cracking fiscal institutional setup was accompanied by ideology. The erosion of order, combined with commercial and intellectual contact with Europe, encouraged growing criticism of Ottoman governance as incompatible with security, justice and improvement. Stavrianos cites the complaint of a Greek merchant that under the Turk there was neither order nor justice and that governments should exist as in Europe where each person could possess property without fear of injustice. Clogg similarly stresses that the mercantile and intellectual revival of the late 18th and early 19th centuries fostered a specifically Greek consciousness increasingly frustrated by the Ottoman status quo[217].

Through this context, the crisis of the Timar system was more than an agrarian transition and instead marked the unravelling of the institutional basis on which Ottoman authority in Greece had once rested however imperfectly. The replacement of a supervised military-fiscal order by tax farming, hereditary estates, magnate brokerage and brazen administrative abuse transformed social grievances into structural antagonism. By the early 19th century, state and society in the Greek lands were no longer linked by a workable imperial compact but divided by a widening gulf of coercion, mistrust and competing visions of political order[218].

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[216] Richard Clogg, *A Concise History of Greece*, 2nd ed. (Cambridge: Cambridge University Press, 2002), 21–24

[217] Richard Clogg, *A Concise History of Greece*, 2nd ed. (Cambridge: Cambridge University Press, 2002), 21–24; L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 105–110, 135–141; Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο *Ελληνική Οικονομική Ιστορία* (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 14–15.

[218] Halil İnalcık, "Military and Fiscal Transformation in the Ottoman Empire, 1600–1700," *Archivum Ottomanicum* 6 (1980): 294–299; Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα», στο

Ottoman Fiscal Path-Dependencies in Early Greek State Formation

The early Greek State's fiscal order was not constructed on a blank slate because the revolution inherited administrative habits, social intermediaries and revenue practices formed during late Ottoman rule and adapted them to new political circumstances rather than replacing them wholesale. The transition from Ottoman sovereignty to Greek independence therefore involved a transfer of fiscal routines, personnel and expectations that continued to shape State formation after 1821. This chapter establishes the four interlocking path dependencies that connect Ottoman provincial governance to the fiscal structure of the fledgling Greek Kingdom.

Abusive Tax Farming and a Broken Taxation System

Ottoman Era taxation in the Greek lands had long accustomed subjects to extraction that were decentralized, mediated and frequently abusive rather than regular, transparent and proportionate to productive capacity. As attested by scholars like Clogg and McGrew, Greek communities dealt with tax collectors, archons, kodjabashis and ecclesiastical authorities more often than with the Ottoman Central State and this meant that fiscal burdens were experienced through local and semi-local agents rather than through a uniform bureaucratic apparatus[219]. Stavrianos emphasizes that the primates functioned as tax collectors and administrative agents within a decentralized order while contemporary consular evidence reproduced in how work shows that local Christian and Muslim notables often exacted more than the legal quota and shifted burdens onto poorer households[220]. The issue therefore was not merely the weight of taxation but fragmentation of collection, the elasticity of assessments and the absence of reliable checks over those who extracted revenue.

The deterioration of Ottoman administration intensified these tendencies over time as central authority weakened, corruption, embezzlement and arbitrary local rules increased while communities became exposed to abusive exactions on top of official taxes such as surcharges, presents and bribes in addition to harassment from local law enforcement working hand in glove with local intermediaries. Consular reports cited by Stavrianos describe Greek primates, bishops, muhtars and beys levying more than the legal amount and thereby manipulating village accounts

Ελληνική Οικονομική Ιστορία (Αθήνα: Σύνδεσμος Ελληνικών Ακαδημαϊκών Βιβλιοθηκών, 2015), 14–15, 17; L. S. Stavrianos, *The Balkans since 1453* (New York: Holt, Rinehart and Winston, 1958), 104–110, 135–141.

[219] Richard Clogg, *A Concise History of Greece*, 3rd ed. (Cambridge: Cambridge University Press, 2021), 37.

[220] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273–274.

and using both secrecy and force to collect arrears especially from poorer classes[221]. This evidence is crucial as it shows that abuse was ambedded in the social mechanics of collection rather than being exceptions outside the system. The allows us to understand incoming revolutionary regime and their inability to escape these inherited institutional patterns, Levandis explicitly states that despite promises to remove practices associated with Turkish rule, the insurgent authorities retained many administrative methods inherited from their former rulers and that the tax system in particular remained similar in pattern to that of pre-revolutionary days[222]. Taxes were farmed out and often collected in kind, which Levandis identifies as a common Ottoman practice which also was utilised extensively during the war of independence. In consequence, the new tax renters behaved in his words, like public executioners, while Laws intended to curb unauthorized levies failed to prevent arbitrary and ruinous exactions.

This continuity matters as it reveals that early Greek fiscal weakness was not simply the product of wartime devastation but also of institutional carryover. A State that relied on rented collection and kind based exactions could only raise revenues irregularly while also reproducing popular hostility towards taxation. Levandis notes that many insurgents came to believe political liberation should free them of fiscal burdens even though the war required larger and more regular contributions. That disjunction between State necessity and social expectations made taxation politically explosive and administratively unstable from the very outset[223]. The broken character of the system also narrowed the State's developmental horizon as revenue was uncertain, parcelled out and vulnerable to appropriation by intermediaries, the government could not reliably translate extraction into revenue capacity.Instead the public purse became the object of factional struggle and fiscal instruments became tools for immediate appropriation rather than long-term consolidation. In this sense, abusive tax farming was not only an inheritance from Ottoman rule but a mechanism through which the early Greek state reproduced Ottoman-style weaknesses under national auspices[224].

[221] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273–274
[222] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 20–22.
[223] Ibid, 20-22
[224] Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 99–104.

Powerful Local Primates and Communal Tax Mediation

The Ottoman order granted the Orthodox church and local communal institutions a wide degree of autonomy and in practice many Christian dealt more with their own religious and civil leaders than with Ottoman officials. As shown by McGrew, the archons, primates and kodjabashis of the district and village level formed self perpetuating oligarchies whose authority rested on wealth, influence with Ottoman authorities and power as tax collectors. Their importance derived from their intermediary role, the primates collected taxes, handled civil disputes and represented communities to the authorities and in some places supervised welfare, education and public health[225]. In return they acquired social prestige and practical control over access to protection, negotiation and fiscal adjustment, Stavrianos describes them as a provincial aristocracy with almost exclusive and often hereditary control over local government which means they were not merely affluent local spokesmen but were instead entrenched holders of local power[226].

As highlighted in McGrew's analysis, this institutional force survived regime change as the revolutionary and early royal governments lacked the capacity to bypass it. During the anti-Ottoman struggle, the central institutions of a new Greek State were still being forged, contested and mobile leaving effective authority with local functionaries like military chiefs, island based shipowners and Peloponnesian notables. The Kodjabashis in particular sought to preserve the power and privileges they possessed within the institutional framework of Late-Ottoman Greece and the question within the revolutionary camp repeatedly turned on the question of who would control the political spoils of the emerging State. That struggle itself demonstrates that local notables entered independence not as residual figures but as indispensable brokers whose cooperation the new regime found indispensable[227].

Levandis reinforces this point by observing that the affluent, the kodjabashis, merchants and shipmasters were initially reluctant to support the uprising because it endangered their position and property[228]. Once the revolt advanced however these local elites became central to its fiscal and political life while factional competition often revolved around access to the exchequer. The communal and oligarchic structures of the Ottoman period thus did not disappear with

[225] Richard Clogg, *A Concise History of Greece*, 3rd ed. (Cambridge: Cambridge University Press, 2021), 35–37; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273–274; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 9–12.
[226] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273.
[227] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 17–24.
[228] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 16–19.

independence because the State remained dependent on men who could mobilize local compliance, resources and information. Under such conditions, mediation by local primates remained more feasible than direct bureaucratic penetration[229].

The result was a fiscal order in which the State's relation to society remained heavily negotiated rather than purely administrative. Community leaders could defend local interests, delay or redirect obligations and shape the distribution of burdens but they could also use the same position to appropriate surplus and obstruct centralization[230].The recurring complaint that peasants suffered as much from their own primates and clergy as from Turkish officials underscores the double character of communal mediation as both protection and domination. Independent Greece therefore inherited not simply a local leadership but a mode of fiscal governance in which local intermediaries were indispensable because the center was too weak to rule around them in a manner similar to the institutional path-dependency that the de-centralized Ottoman institutions laid between Greece and Istanbul[231]. These intermediary structures translated readily into clientelist politics and patrimonial administration in the early Greek State.

Clientelist Politics and Patrimonial Administration

Ottoman provincial governance had long blurred the boundaries between public office, private advantage and local influence as the concentration of authority in Chiflick holders turned communal notables in the late-ottoman empire institutionally incentivised these elites to treat public office in local fiscal institutions as a source of revenue, protection and brokerage[232]. As Clogg exposes, even the Church itself had been drawn into the institutionalized corruption through bribes, rivalries for office and the need to recoup payments made for advancement while these provincial notables used their wealth and connections to dominate both ecclesiastical and administrative structures. Such precedents mattered because they normalised political authority as something exercised through personal leverage and negotiated favor rather than through

[229] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 27-29.
[230] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273–274; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 9–12, 17–24; John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 20–22.
[231] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 274; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 17–24; John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 20–22.
[232] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273–274; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 9–12.

impersonal rules[233].

The political atmosphere of the Greek revolution and its aftermath reproduced this social logic. Levandis describes the leading factions as fighting for key positions and especially for control of the public purse after which revenues were diverted to nourish their own standing and enrich their associates[234]. He treats this as the inauguration of vicious internal functionalism characterising Greek Fiscal administration directly to patronage and group interests. Public office under these conditions became a channel of distribution rather than neutral administrative responsibility. Similar patterns appear in broader narratives of State formation. In the revolutionary constitutions, formal central institutions existed yet effective power remained dispersed among the primates while the creation of a unified government in Athens intensified rather than eliminating factional intrigue[235]. Clogg's account similarly notes that the Peloponnesian kodjabashis wanted to preserve their old prerogatives while military leaders and shipowners demanded shares of political power proportionate to their contribution. This was not yet clientelism in its later parliamentary form but it already displayed a patrimonial logic in which office and revenues were divisible assets to be allocated among powerful networks[236].

Even the imported bureaucratic forms of the Bavarian regency could not overcome this legacy as it remained disconnected from local society. Stavrianos writes that the regents imposed a highly centralized Western bureaucracy in place of older local institutions yet they simultaneously excluded most Greeks from real decision-making, disbanded native forces and generated resentment among veterans and notables[237]. Both Levandis and Stavrianos show that the new state faced a population that distrusted officials, viewed many governing groups as alien and experienced administration through rapacious tax collectors and competing cliques. In practice, this meant that personal loyalty, factional alignment and access to patrons remained more consequential than abstract institutional norms[238].

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[233] Richard Clogg, *A Concise History of Greece*, 3rd ed. (Cambridge: Cambridge University Press, 2021), 35–36; Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 99–104.
[234] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 17–19.
[235] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 17–19; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 17–24.
[236] Richard Clogg, *A Concise History of Greece*, 3rd ed. (Cambridge: Cambridge University Press, 2021), 37–38; Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 99–104.
[237] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 292–294.
[238] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 20–22; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 292–294.

Such a path-dependency of patrimonial administration would shape the State spending priorities, rather than building a tax apparatus rooted in standardized assessment and predictable enforcement, political actors used offices and revenues to reward followers, maintain armed support and outmaneuver political rivals. Levanidis's account of competing factions seeking hold over the exchequer shows how closely fiscal weaknesses and patronage politics were intertwined. The early Greek State therefore inherited from the Ottoman era social structures not only local elites but a governing mentality that converted administrative authority into a resource of personal and factional exchange[239].

External Financial Dependence Over Domestic Capacity Building

The culminating path dependency was external financial dependence because the new State inherited a broken tax system, relied on intermediaries it could not fully discipline and saw revenues being consumed by factional and patrimonial politics, it lacked a durable domestic fiscal base adequate for war, reconstruction and state building. Levandi's opening account of the revolution makes this plain by noting that insurgent Greece had no real national exchequer, exhausted internal credit, irregular revenues from land, customs and produce taxes and an economy devastated by war. When internal borrowing, voluntary contributions, requisitions and improvised taxation proved insufficient, the revolution turned to foreign loans[240].

Instead of being a temporary respite, the loans of the 1820s were contracted on onerous terms much of their proceeds were lost to discounts, commissions and mismanagement and their use was often diverted to factional, military and non-productive ends rather than durable fiscal reconstruction. Levandis repeatedly emphasizes that foreign borrowing arose from urgent need and that much of the money never became a productive internal resource for the new State. Instead debt service claims accumulated while domestic revenue remained weak, uncertain and politically contested[241].

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[239] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 17–19; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273–274; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 17–24.

[240] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 1–7.

[241] Ibid,32-42

This pattern deepened after independence as Levandis shows that the guaranteed loan of 60 Million French Francs gave the new Kingdom external assistance but much of the money was preempted for discounts, indemnities, troop maintenance and other prior charges while a large share of what remained went to the army, the civil list and the Bavarian bureaucracy rather than to rehabilitation or productive development[242]. He concludes that little of the first two loan installments actually aided the improvement of the country's resources and that the debt service soon became a crushing charge on Greek finances. Stavrianos similarly notes that the regency concentrated on building governmental forms from above rather than forming the country materially from below. External finance thus substituted for internal capacity building instead of enabling it while the treaty arrangements around the guaranteed loan gave the protecting powers oversight over Greek revenues and placed debt service ahead of the other uses of the treasury thereby limiting sovereignty in the very process of State formation[243]. Article XII[244] as Levandis explains, required the first revenues of the Greek State to go towards interest and sinking fund obligations and charged the diplomatic representatives of the powers with supervising compliance. Fiscal weakness therefore translated directly into foreign leverage over domestic administration[245].

This dependence persisted because the underlying domestic problems were unsolved while State revenues remained inadequate, budgets showed repeated deficits and external markets remained wary until older debts were addressed which meant that Greece oscillated between financial isolation and renewed dependence on outside lenders. Rather than first constructing an effective internal tax base and then borrowing from a position of strength, the new State borrowed because its internal exaction was defective and politically fragmented. In that sense, external dependence was the endpoint of the earlier three path-dependencies and the clearest sign that post-Ottoman statehood remained fiscally constrained by inherited institutions[246].

[242] Ibid,54-60
[243] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 54–60; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 293–294.
[244] In Levandis, Article XII refers to the provisions attached to the 1832 settlement establishing the Kingdom of Greece and the guaranteed loan of 60 million French francs under the protection of Britain, France, and Russia.
[245] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 55–57
[246] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 60–68; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 17–24; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273–274, 292–294;Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 99–104.

The Interactive Matrix of the Four Dependencies

These four path dependencies formed a single reinforcing structure rather than a list of separate defects. Abusive tax farming, weakened trust, distorted assessments and prevented predictable revenue from emerging. Powerful local primates then occupied the space left by weak bureaucracy mediating obligations while also entrenching oligarchic control over access to the State. Those intermediary arrangements fed directly into clientelist and patrimonial politics because office and revenue were distributed through personal networks, factional alliance and negotiated favors than through uniform institutions. Once revenues were fragmented and politically appropriated in this way, external borrowing appeared as the only available solution to the State's chronic mismatch between obligations and domestic capacity[247].

The early Greek State therefore inherited from Ottoman rule institutional path-dependencies as much as fiscal techniques. It inherited a world in which taxation was contested, authority was mediated, office was personalized and solvency depended increasingly on foreign backing. Independence altered sovereignty, symbols and legal forms but it did not erase the institutional habits through which revenues had long been raised and power long exercised. The significance of these path-dependencies is not be understood simplistically as Greece remaining Ottoman instead the first fiscal architecture of the Greek State emerged along tracks already laid by Ottoman provincial governance. Early Greek State formation was thus post-Ottoman not because it escaped Ottoman institutions but because it reworked them under new national and international constraints.

Cycle I: The Price of a Great Idea, 1821 to 1898

The inherited patterns of Ottoman era fiscal structures will be evaluated in Greece's first long cycle of sovereign debt crises from 1821 to 1898. This chapter proceeds in 3 case studies with each one dedicated to studying each default in 1826, 1843 and 1893. The chapter looks at whether Greece reproduced the 4 main mechanisms: abusive tax-farming practices and weak

[247] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 1–7, 17–22, 32–39, 54–60; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 273–274, 292–294; Richard Clogg, *A Concise History of Greece*, 3rd ed. (Cambridge: Cambridge University Press, 2021), 37–38; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 9–12, 17–24.

taxation, influence of powerful local primates in tax mediation, clientelist and patrimonial administrative practices and external financial dependence in place of domestic capacity building and the way these mechanisms reappeared, adapted or weakened inside the Greek State during each default.

The analysis uses a within-case design for each default episode, treating each external debt crisis as a "lock-in" test of Ottoman path dependencies as they are critical junctures of debt intolerance marked by underlying institutional fragility as outlined by Reinhart and Rogoff. The default year embodies the central rupture and the three years before and after it serves as the relevant analytical window while keeping the comparison consistent across cases. Each episode will be read through a lens of historical path dependence in order to identify increasing returns, institutional layering, adaptation or breakdown in Greek fiscal governance. This allows each crisis to be studied as a 7 year debt default episode while keeping consistency, each case analysis follows the same internal structure looking at the pre-default pressures in the years leading up to the default, the default event itself, the post-default adjustment and the institutional path-dependence test.

Following case study analysis the chapter concludes with a brief synthesis at the end comparing the 3 episodes of default to study which Ottoman legacies persisted most strongly within each cycle and how they shaped the fiscal trajectory into the subsequent debt cycles.

Foreign Borrowing during Revolutionary Rule and the Default of 1826

The material conditions of insurgent Greece did not provide ample means to the incoherent mob of insurgents composed of landless peasants, Kodja Bashis (native primates), merchants and shipmasters who all had divergent inclinations to rebel against the Ottoman Empire. The insurgent economy was beyond exhausted by the time the first large scale foreign borrowings were contracted as the country had crippled its agriculture by draining its farm labor through its diversion to war and a subsequent decline in national revenue as argued by Levandis[248]. Its maritime trade had been suspended, its merchant marine was displaced. Throughout this period from 1821 to 1833 provisional governments in revolutionary Greece could only depend on the sole source of wealth for revenue which was the vast swaths of land that evicted Ottoman control

[248] [1] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 1–7, 14–17; Richard Clogg, *A Concise History of Greece*, 3rd ed. (Cambridge: Cambridge University Press, 2021), 37–38.

but on whose tax incomes the emergency governments sustained itself, termed as "national lands" the government hedged these public domains as backing for foreign borrowing[249].

The revolutionary government thus entered the London financial market as urgent military expenditure outpaced local resources[250]. As a result the first external loans of Greece were contracted for 800,000 pounds in February, 1824 at an interest rate of 5% and 1% annual sinking-fund charge[251]. Clever efforts by Greek envoys in creating competition between France and the UK by approaching both Great powers further prompted the English to float a second external loan of 2,000,000 pounds in February, 1825[252]. About 200,000 pounds was withheld from it to meet the maturing interests of the first 2 years and an additional 20,000 pounds deducted as a sinking fund for the 1st year of the loan[253]. Levandis details that both loans were contracted on vague promises of repayment by servicing the national lands without any specific guarantees on the portion of national lands to be serviced or any other dedicated revenue source for repayment with investor confidence completely vested on the success of the military campaign against the Ottomans[254].

These costly loans set the pre-default period as lenders and intermediaries treated the Greek obligations as speculative instruments while the revolutionary state remained unable to produce the revenue discipline needed to reassure creditors resulting in an accelerating crisis of credibility and not merely an accounting shortfall. The three years leading up to the default witnessed escalating military pressure and debt service obligations exceeding reliable receipts[255]. The military and economic environment rapidly deteriorated in 1825 and 1826 as the revolutionary struggle intensified and the State's taxable base contracted further[256]. As outlined by Levandis and McGrew the lead up to the default saw deteriorating revenue which forced borrowing which became unpayable when wartime dislocation worsened. By 1826, that spiral had become visible enough that the administration chose unilateral suspension rather than

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[249] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 3–7; Βασίλης Πατρώνης, «Η "Οικονομική Αναγέννηση" του Ελληνικού Χώρου τον 18ο Αιώνα» ["The 'Economic Renaissance' of the Greek Lands in the Eighteenth Century"], in *Ελληνική Οικονομική Ιστορία* [*Greek Economic History*] (Athens: Association of Greek Academic Libraries, 2015).

[250] [1] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 24–26

[251] Ibid,26-28

[252] Ibid,29-32

[253] Ibid,33-35

[254] Ibid,26-33

[255] John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 39-42

[256] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985),59

continued servicing of the external debt[257].

The default occurred in April 1826 as unilateral postponement of the debt service by the Provincial Government making it the first Greek default 6 years ahead of the country achieving independence which set the precedent for future ruptures. The significance of the event lies not only in the cessation of payment but in the fact that servicing had already been fictionalized by the time of default as only limited interest payments were ever made and those were largely retained from the proceeds of the loans themselves. Levandis considers the default as the admission of the fact that the revolutionary regime was incapable of honoring its obligations contracted under wartime conditions and extortionate loan terms. In that sense, the default was a recognition of insolvency embedded in the very structure of the original borrowing[258].

The resulting settlement pattern also reveals how the Greek debt was transformed from a financial mishap into a prolonged diplomatic problem as attempts at settlement under President Kapodistrias[259] in 1829 and later under the Bavarian regency failed because bondholders refused to accept a meaningful reduction while the Greek side insisted on scaling to the State's realistic payment capacity, the British government refused to treat it as a purely private matter and utilised the debt as an object of recurring diplomatic remonstrance[260].

An analysis of the three years after the default clearly highlights this as the revolutionary and early State authorities were forced into a defensive posture marked by negotiations, credibility repair and continued fiscal improvisation. Greece's default shut down normal access to foreign borrowing as Alogokoufis shows the British government completely barring Greece from global capital markets. He argues that the inability to borrow externally after 1826 would remain a defining feature of Greek fiscal life for long stretches of the 19th century[261]. The settlement of these "independence loans" floated in 1824 and 1825 only arrived in the eventual 1878 settlement keeping Greece excluded from international capital markets throughout this period underlining how complete the 1826 default had been for the fledgling State. The settlement

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257 John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 40-42
258 Ibid, 39-42
259 Ioannis Kapodistrias (1776–1831) was the first head of state of independent Greece after the Greek War of Independence. He served as Governor of Greece (1828–1831), before the establishment of the Bavarian monarchy under King Otto.
260 Ibid, 43-54
261 George Alogoskoufis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939," 7–9

pattern was therefore continuous deferment, diplomatic tugs of war and restructuring on terms favorable to creditors than the revolutionary debtor would have accepted in the 1820s[262].

The three year aftermath therefore should be understood as a bridge between revolutionary improvisation and sovereign debt dependence as the default did not resolve the fiscal question; it instead displaced it into a diplomatic channel where it would reappear in later negotiations over the independence loans and then again in the loans of the monarchy. Such an institutional continuity makes the 1826 default central as it shows that this was not an isolated but inaugurated pattern of external financing becoming both necessary and politically destabilizing, the immediate adjustment was thus one of managed distress instead of recovery as Greece devised covert ways of entangling itself in foreign debt commitments due to the gigantic task of reconstruction after the war which required immense capital mobilisation in addition to maintaining its heavy administrative machinery[263].

This is evidenced by an analysis of early Greek balance sheets between January, 1828 and March, 1832, within the total balance of approximately 936,500 pounds around 119,000 pounds were advancements made by Russia in 1830 with additional contributions by France[264]. It entrenched the trend of foreign creditors treating Greek public finances as an object of political as well as financial supervision.

In North's terms, a deeper observation reveals strong path dependence mechanisms in which the ascribed institutional outlay of Greece created increasing returns to later dependency rather than a clean break toward fiscal autonomy. The arrival of foreign debt, foreign intervention and oversight happened on a pre-existing fiscal order which was weak as the reason revolutionary Greece had to choose to finance its war through external borrowing was due to the pitiful condition of its fiscal capacity[265]. As Stavrianos notes, the revolutionary government faced a society with a limited commercial base and a countryside impoverished and organised around Ottoman land-revenue practices. The foreign borrowing of 1824 and 1825 and the adjoining

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262 John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 43–54, 169–176.
263 John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 43–60; George Alogoskoufis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939." 3-8
264 John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 49–51.
265 Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 92–104; John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 1–7, 24–35; George Alogoskoufis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939," 3–8

crisis of 1826 was fundamentally a mismatch between war expenditure and the State's revenue extraction capacity due to the predominance of Ottoman path-dependencies[266].

As pointed out by McGrew, the most vital source of wealth and revenue for the new Greek government was its landed property, a public asset if put to good use would "*Serve to place its finances on a sound footing and help to begin the process of national regeneration*"[267] but instead insurgent Greece largely inherited and perpetuated the most exploitative aspects of the Ottoman chiflik system and the fiscal norms it entailed as *"Ottoman practices continued to serve as a point of reference for determining land status and tenure rights throughout most of the nineteenth century"*[268] as a result the institutional legacies of the chiflik system greatly worked against the insurgent Greek State in its struggle to finance and conduct the war against the Ottomans[269].

The Hellenic State continued to maintain the inefficient, abusive and broken tax regime of the late Ottoman Greece with tax collection being largely left to the same class of tax farmers and administrators thereby greatly upsetting the peasantry who chose to back the revolution for direct proprietorship of land and mild taxation but was put in the precarious position of paying a 30% land tax on State-owned national lands[270]. Apostolos Vakalopoulos's documentation of prevailing law and order in insurgent Greece actually takes it even further as his work points to the fact that the breakdown Ottoman administration gave way to localised revolutionary governance under whom these abuses actually grew more rampant[271]. The fiscal authorities continued the Ottoman practice of dividing and auctioning sections within each province as tax farms with even more power vested in tax-farmers to identify and assess revenue granting them immense leverage as the Ottoman court system also fell into disarray leaving the masses to the mercy of the tax-farmer whose obvious interest is to maximise revenues with little regard to the welfare of the commoner[272]. Yet, most of these dues never reached the central exchequer as evidenced by an 1827 auditing committee report given to Greek national assembly which showcased that the out

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[266] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 287–292; John A. Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 1–7, 24–42; Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 92–104.
[267] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985),21
[268] Ibid, 22
[269] Ibid, 54
[270] Ibid, 65
[271] Apostolos E. Vakalopoulos, *The Greek Nation, 1453–1669: The Cultural and Economic Background of Modern Greek Society* (New Brunswick, NJ: Rutgers University Press, 1976), 231-250, 284
[272] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985),60

of the 823,381 *grosia*[273] farmed out from the Peloponnesus region alone little more than 30,000 *grosia* actually reached the treasury[274]. Newspapers from the time such as the *Ethnike* (The National) detail the sheer scale of the extortion happening to tax revenues as they report that:

"*The first tax farmers, who were usually powerful persons, had inexhaustible accounts with successive governments for campaigns, maintenance of local forces, compensations etc. They would keep the public revenues to meet the amounts due to them. They committed even greater abuses. The insatiable tax farmer incited certain tax payers to disobedience by advising them not to pay the tithers and then charged them before the government with refusal to pay. The government, either weak or afraid of the powerful ones, or aiding them from special interest, ignored these abuses and received less than half the value of the revenues. Not having its own employees to collect the revenues, the government did not know the amount of taxable lands. A large part of national land was usurped by the villagers and others and the public property was wasted in all ways.*"[275]

As McGrew notes, this was made even worse due to the lack of adequate data on tax records and property documentation as a consequence of Ottoman decline since periodic tax record revisions and land surveys ceased by the late 17th century which further handicapped the emerging Greek state in properly assessing and collecting revenues[276].

This broken tax regime is a consequence of the decentralized, corrupt and chaotic nature late Ottoman rule under whom real institutional power was wielded by local magnates whose political and military power allowed them to supervise the raising of revenues, award tax-farming concessions and exercised whatever authority could in practice be exerted over the use of national lands regardless of whether it complied with the rules of national government in Athens[277]. As the meagre resources of the national government was spent fighting the war coupled with declining economic productivity the land tax virtually became the sole source of income and therefore it depended heavily on provincial magnates to act as civilian and military leaders granting them complete autonomy in matters of taxation, military recruitment and local administration[278]. The entrenched position of these local magnates only further strengthened

[273] In Greece, the term *grosia* (γρόσια) was used to refer to piastres or kuruş, which were common currencies circulating in the Ottoman Empire and the Balkans
[274] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985),75
[275] Ibid,75
[276] Ibid,60
[277] Ibid 68
[278] Ibid,59

during the transition from Turkish rule to revolutionary governance as influential primate families still held their Ottoman-era tax farms, for example within the Karytaina district of the Peleponnesus pre-revolutionary magnates such as Demetrius Plapoutas, Constantinos Dimitrakoupoulos, Andreas Metaxes among others continued holding their tax farms in 1832[279]. As McGrew puts it,

"Their loyalties and ambitions were rooted in the traditional value system of their region, their actions governed far more by considerations of enhancing their power and wealth locally than by hazy new concepts of national identity and allegiance to a central government"[280]

Arbitrary exactions, distortion of tax revenues and usurpations of tax farms by these provincial elites proliferated to such an extent that even Premier Kapodistrias himself accepted that the national government was virtually powerless to prevent the usurpation of national lands and tax revenues by these primates[281]. This is further evidenced by special commissioners sent by the national government to various provinces (especially the peloponnesus) in 1830 who received complaints from the citizenry that a few wealthy primates had virtually monopolised vast swaths of national lands that were meant to be enjoyed by all individuals[282].

The extreme conditions of weak state capacity rightly explain why the revolutionary leadership chose to finance its war effort through external borrowing which manifested in a debt structure that future governments also had to renegotiate rather than erase. It is possible to discover a classic path-dependent trajectory as the options available in 1829 were constrained by the above-mentioned institutional architecture from 1824-1826[283]. It indicates a cumulative institutional path rather than a series of independent choices as revolutionary Greece inherited Ottoman fiscal practices showcasing institutional layering instead of replacement of this institutional framework. These inherited Ottoman techniques and revolutionary improvisation produced a hybrid fiscal order that coexisted uneasily which resulted in institutional sedimentation where each new layer made later reform more difficult.

279 Ibid,61
280 Ibid,55
281 Ibid,78
282 Ibid,76
283 John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 25–58, 86–95; Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 99–104.

McGrew puts it best when he propounded that "*Greeks still thought in terms of the familiar Ottoman-dominated past. The old rivalries among clans and cliques for position, wealth and even for the favor of the Turks, continued with new adaptations during the revolution"*[284] as entrenched family and local loyalties trumped even the demands of the war of independence[285].

The revolutionary period as a result had already produced intense suspicion toward fiscal obligations as the collapse of Ottoman rule encouraged many participants to imagine political liberation as liberation from taxation, while the extortionary practices of fiscal intermediaries during revolutionary rule further intensified the late Ottoman-era mistrust by associating central finances with foreign dependency, elite opportunism and the diversion of scarce resources into nonproductive channels[286]. Over time this will help produce a State in which revenue extraction, debt service and sovereignty were continuously contested by vested interests rather than being securely institutionalized further widening the chasm that exists between the public and the State institutions including the tax regime. Hence, the 1826 default was not only a financial event but a foundational episode in the making of the Greek State's 19th century institutional fragility. It is into this fiscal framework of a narrow revenue base and heavily inherited obligations to foreign lenders that a post-independent political order tasked to be constructed by King Otto I of Bavaria.

The Fiscal Regime Under the Monarchy and the Default of 1843

When the kingdom of Greece was established under Otto, the new state possessed a territory of about 45,000 square kilometers and a population of roughly three quarters of a million while war damage had crippled agriculture, shipping and commerce leaving the treasury almost empty[287]. Its political architecture was under the strict supervision of the protecting powers that aided its independence struggle. The British, The French and the Russian courts not only constituted the monarchy but also tied Greek sovereignty to a guaranteed foreign loan meant to stabilize the

[284]William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985),54

[285] Ibid,55

[286] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 52–57; Apostolos E. Vakalopoulos, [exact title of the work you are using], 188–193; Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 99–104.

[287] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics, 2023), 10.

regime and secure the new order[288]. The macro-fiscal setting of 1843 took shape in this domestic and international political framework as debt servicing of outstanding debts from the default of 1826 was embedded within the legal settlement of state formation itself and had the first claim over the revenues of the Greek government under Article XII of the convention of May 7th 1832 thereby handicapping the Greek government's financial capabilities from the very outset[289].

The Greek government's fiscal weakness was further compounded with the creation of the Bavarian monarchy, King Otto's regime, its bureaucratic apparatus and the Bavarian militia installed to protect it introduced a western modelled state-building project whose administrative and military costs far exceeded the country's realized fiscal capacity[290]. As noted by Levandis King Otto I took charge as King of Greece with a treasury whose balance was approximately 60 pounds[291]. The absolute monarchy spent its tenure introducing centralized legal codes, courts, civil service systems and a national currency modelled on Western Europe led by Bavarian officials and a foreign military struggling to integrate local notables, military men and provincial constituencies inherited from late Ottoman conditions[292]. In such a political setting, the fiscal burden of state formation translated directly into a legitimacy problem as the regime had to extract revenue from a war ravaged, stratified and agrarian Greece to fund an imported administrative order which was expensive, alien to Greek society and politically brittle[293]. The 1843 default was therefore not just a mere episodic failure of payment but an institutional test of whether a newly independent State built on weak domestic extraction and heavy external dependence could reconcile sovereign institution building with the hard budget constraints imposed by foreign creditors.

Such an endeavour was undertaken in exchange for a new foreign loan of 60 million French Francs from the protecting powers in 1832 to be issued in 3 installments of 20 million French Francs each at a 5% interest rate with a 1% sinking fund charge and a 36 year maturity

[288] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 70–83**.**
[289] Ibid,72-83
[290] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 76–83; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics, 2023), 10–11.
[291] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 78.
[292] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 76–83; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 63–70.
[293] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 76–79

structure[294]. Yet as Alogokoufis highlights, this loan contained very little funds for productive state development. An analysis of the first two installments floated in 1833 at an issue price of 94 shows that out of the 40,059,390 drachmas generated under this loan around 23,847,962 drachmas were immediately deducted as commissions, war indemnities to the Ottoman Empire, the Bavarian regency's travel expenses and to cover a year's worth of expenses for the incoming Bavarian troops, leaving only 16,211,428 drachmas for the Greek State or around 24.3 million French Francs out of the intended 40 million French Francs[295]. The guaranteed loan as a result functioned less as developmental capital than as an externally supervised mechanism for installing monarchy, compensating the Ottoman Empire and underwriting military and administrative structures whose costs the domestic economy could not carry[296].

The three year lead up to the debt default reveals how chronic fiscal pressure hardened into open insolvency. The first two installments of the guaranteed loan had been expended quickly and from 1835 onward Athens pressed for the release of the third installment, arguing that further assistance was needed to develop the country's resources and stabilize the public finances. Yet the guarantor powers did not respond as a unified creditor bloc[297]. Their decisions were filtered through diplomatic competition in Athens, where France supported Colettis, Britain leaned toward Mavrocordatos and Russia favored remnants of the Kapodistrian group so that the availability of credit was tied to factional influence as much as to Greek solvency. Russia which was once willing to guarantee further advances became obstructive when its influence waned while Lord Palmerston briefly signaled a greater British willingness to support further advances so long as British influences remained ascendant. This political rivalry mattered economically because Greece depended on outside decisions to refinance obligations which its own revenue system could not meet[298].

The fiscal data cited by contemporaries and by later historians point to mounting structural distress rather than temporary mismanagement alone. The budgets of 1833 and 1834 closed with a combined deficit of almost 15 Million French Francs and in the first years of independent statehood the budget showed a sizable deficit every year except 1836, with 1837 producing an

[294] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 41-44.
[295] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics, 2023), 11.
[296] Ibid, 11
[297] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 29-39
[298] Ibid,86-92

especially large deficit. Military expenditure during the first five years of independent life averaged about´7.3 million drachmas annually and the two war ministries consumed roughly half of total state revenue during the first decade[299]. As a result Greece's available balance from these loans was absorbed not by productive reconstruction but by military maintenance, the civil list and a highly paid Bavarian bureaucracy. Metternich's criticism that regency had concerned itself with "forming a government" rather than "forming the country" captured a core macro-fiscal contradiction: the regime created offices, uniforms and tax rules before it had secured the social and property foundations that could make taxation durable and growth supporting[300]. The problem was not only excessive spending in the abstract but this failure in institutional centralization preceded the development of the productive base needed to finance it.

Debt service itself intensified this contradiction and transformed fiscal weakness into sovereign crisis. Levandis calculates that in the first decade the interest and sinking fund charges consumed the entire third installment together with an additional 6.3 Million drachmas appropriated directly from the Greek treasury. By 1843 the cumulative charge on the guaranteed loan had reached 66,842,126 drachmas, almost 7 million drachmas above the original debt. Contemporary syntheses describe the monarchy as having maintained debt service only through retained advances for four years, then resuming direct payments in 1840 before suspending them again in 1843[301]. This means that the apparent continuity of service in the late 1830s and the early 1840s was not evidence of fiscal recovery but rather of a temporary and fragile bridge sustained by foreign accommodation, deferred obligations and extraordinary pressure on the treasury. Once the third installment was withheld and the powers became less willing to subsidize the debt burden, the mismatch between recurring obligations and domestic revenue became decisive[302].

The pre-default years also reveal the extent to which external dependence had substituted domestic capacity as Levanidis research shows that in just 2 years since the release of two massive loans Athens was already in a dire financial state sending out pleas for the release of the

[299] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics, 2023), 12.
[300] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics, 2023), 11; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 76–83, esp. 80.
[301] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 41-44; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics, 2023), 12.
[302]John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 41–42; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," 12.

third installment of the guaranteed loan in 1835. This plea also included a request asking for the immediate release of at least 3 Million French Francs in immediate advance if full payment cannot be made available, this showcases how narrow the margin of solvency had become as the years 1840 to 1843 were not a descent from stability into crisis but the exhaustion of a debt regime that had always rested on unrealized assumptions about fiscal capacity.[303]

The immediate rupture finally occurred in January 1843 as the Greek foreign minister Rizos appealed to the guarantors to resume servicing its debt until Greek finances recovered sufficiently to bear that burden. Russia instructed its representative to demand immediate reimbursement for prior advances and the other powers followed, rejecting Greek hopes for temporary relief[304]. To forestall intervention, the Greek government promised economics and retrenchment across the administrative services but those assurances were judged insufficient and the issue was referred to the London Conference[305]. In May 1843 Aberdeen, Saint Aulaire and Brunnow deliberated on the Greek crisis and produced a note demanding expenditure cuts and assignment of customs proceeds of Syra[306] as security while estimating the potential economies from retrenchment at 3.7 Million French Francs, an amount they deemed enough to cover debt service[307]. The numerical precision of this estimate reveals that creditor logic of the rupture: default was treated not as evidence of overall underdevelopment but as proof that Greek budgets still contained compressible expenditures that could be redirected to creditors.

The immediate rupture was therefore political as well as financial. Greek ministers Rhalles and Rizos signed a Financial Convention on September 14, 1843 embodying the London recommendations but the Revolution of September 3, 1843 against the monarchy interrupted ratification and delayed implementation. The domestic audience had already reacted sharply to the creditor demands, because the assignment of revenues and the call for externally supervised retrenchment appeared as a direct encroachment on the kingdom's sovereignty[308]. Crowds gathered before the legations, the university faculty agreed to serve without compensation and even the crown accepted a reduction of the civil list, indicating that austerity was redistributed symbolically across the state but without removing the core issue of creditor control. The

[303] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 41–44; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," 12.
[304] Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898*, 45.
[305] Ibid, 45
[306] In the 1830s and 1840s, Syra was one of the most important commercial and shipping centers in Greece.
[307] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 45
[308]Ibid, 48-50

financial crisis coincided with the broader political crisis that ended absolutism and inaugurated constitutional monarchy and one detailed fiscal-state study states plainly that the 1843 adjustment effort imposed wage cuts and dismissals in the public sector, infuriated the domestic audience and still failed to satisfy the protecting powers. The default was thus settled only in the narrow sense that Greece accepted the creditor framework under duress; institutionally, the settlement remained unstable because the political regime that signed it was collapsing[309].

Borrowing patterns before and after the rupture further illuminate the nature of the settlement. Before 1843 Greece had relied overwhelmingly on the guaranteed external loan of 1833 and on subsequent advances tied to the servicing of that same obligation, with only limited room for autonomous domestic borrowing. After the default, the protecting powers adopted a more accommodating short term stance by advancing amounts for debt payments to the Greek State, effectively refinancing their previous loan so as to avoid an outright call on their guarantees, yet this was not a restoration of normal market access[310]. Greece remained dependent on official forbearance and external political bargaining rather than any renewed capacity to borrow on ordinary terms. The long run pattern captured by modern scholarship is that private market access remained constrained while official lending or guarantee structures repeatedly replaced direct private exposure whenever Greek insolvency threatened diplomatic interests. The 1843 default therefore did not close a single loan cycle so much as inaugurate a prolonged era in which foreign official claims deepened their hold over Greek public finance[311].

The three year aftermath from late 1843 to 1846 was marked by constitutional change, contested ratification and institutional adjustment rather than clean financial resolution. The constitution of 1844 required parliamentary approval of the budget and annual fiscal reporting, thereby introducing a more formal framework of accountability than had existed under absolutism[312]. A retrospective fiscal report for 1833 to 1843 was published and the new constitutional order gradually improved public financial management through budget publication, the eventual

[309] Richard Clogg, *A Concise History of Greece*, 39–41; George Alogoskoufis, “The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece,” 12–13.
[310] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 41–45; George Alogoskoufis, “The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece,” 12; Carmen M. Reinhart and Christoph Trebesch, “The Pitfalls of External Dependence: Greece, 1829–2015,” *Brookings Papers on Economic Activity* (2015): 321–323.
[311] Carmen M. Reinhart and Christoph Trebesch, “The Pitfalls of External Dependence: Greece, 1829–2015,” *Brookings Papers on Economic Activity* (2015): 321–325; George Alogoskoufis, “The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece,” 12–13.
[312] Richard Clogg, *A Concise History of Greece*, 40-41

introduction of a basic public accounting system in 1852 and the creation of local tax offices in 1854 although those latter measures came after the initial three year horizon[313]. In the immediate post-default years, however, the key issue remained the ratification of the September 1843 convention. When the protecting powers resumed pressure in April 1845, the new prime minister Ioannis Kolettis stalled and British patience wore thin as then British Foreign Secretary Lord Aberdeen warned that failure to ratify gave Britain the right to insist on the strict execution of Article XII of the 1832 settlement[314].

This aftermath exposed a persistent duality in Greek institution building as on the one hand constitutional governance softened the immediate coercive edge of creditor intervention by embedding budgets in representative procedures and by making public finance more visible. On the other hand, representation did not directly result in increased fiscal capacity and later quantitative works on 19th century Greece found that greater legislative constraints on executive power were associated with weaker tax performance suggesting that representative politics often generated bargains for tax relief rather than broader extraction[315]. This finding helps explain why the constitutional turn post-1843 did not produce a quick restoration of creditworthiness. Instead, the protecting powers continued to regard Greece as a debtor country requiring surveillance with Britain still threatening still enforcement of debt obligations in 1846 while invoking respect for Greek independence only in the same breath as demands for payment. Institutional adjustment after default thus meant a shift from absolutist insolvency to constitutional insolvency under continued foreign tutelage and not a transition to autonomous fiscal development[316].

Viewed from a Northian lens, this episode highlights the presence of embedded Ottoman institutional legacies in the Greek fiscal order despite formal independence as the nation continued relying on its abusive, corrupt and underdeveloped late-Ottoman taxation system as the renting of national lands and the farming out of tax collection to local magnates virtually remained unchanged as the system remained lucrative for these intermediaries and was vehemently resistant to reform. Alogokoufis's long.run fiscal study and the later commission of

313 Kostas Kostis, *History's Spoiled Children: The Formation of the Modern Greek State* (London: Hurst & Company, 2018), chapter 4–5.
314 John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 47–48.
315 George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," 12–13; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898*, 45–49; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," 321–323.
316 John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 47–49; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (2015): 321–325.

inquiry into Greek finances criticized exactly these weaknesses, including the land tax, tax abuses, accumulation of arrears and the administration's failure to exercise control but these defects had their roots in pre-independence structures of revenue extraction and mediation rather than in the guaranteed loan alone[317]. The 1843 crisis revealed how a state trying to service externally fixed debt through internally fragile and socially uneven tax machinery could neither raise its own revenues equitably nor command broad legitimacy.

The lock in effects emerging from the path-dependencies laid by the power of local primates and communal tax mediation can be observed due to their stranglehold over Greek politics which was still heavily mediated by regional patrons, local notables and client networks connected to the old party formations and to provincial social structures inherited from Ottoman rule. Attempts at centralization by the Bavarian regency did not dent these intermediaries as the monarchy lacked the coercive and informational capacity to rule without them[318]. The representative system introduced after 1843, far from extinguishing local brokerage, often increased the leverage of such actors by linking taxation and public employment to electoral mobilization. The persistence of communal mediation mattered fiscally because it narrowed the tax base, shielded favoured groups and made uniform enforcement politically costly. In that sense, the default was not simply the failure of a central treasury but the failure of a centralizing state to overcome localized structures of political extraction[319].

Accompanying this was the institutionalised power of clientelist politics and a patrimonial administration. Modern summaries of 19th century fiscal history stress that governments used public resources for party political aims, especially the appointment of supporters to administrative positions and that the system of patronage blocked the emergence of a skilled, autonomous and politically insulated fiscal administration. The Bavarian phase had already shaped a bureaucracy whose costs were high and whose social roots in the country were weak while the successive constitutional phase opened new channels through which local and partisan

[317]Francios Koutentakis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–2019"; Linda T. Darling, *Revenue-Raising and Legitimacy: Tax Collection and Finance Administration in the Ottoman Empire, 1560–1660* (Leiden: Brill, 1996); William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985).

[318] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 63–70, 95–103; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 665–670.

[319] William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 95–103; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 665–670; Linda T. Darling, *Revenue-Raising and Legitimacy: Tax Collection and Finance Administration in the Ottoman Empire, 1560–1660* (Leiden: Brill, 1996); George Alogoskoufis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–2019.

interests could shape appointments and spending[320]. This combination was fiscally corrosive because it raised current expenditure without necessarily increasing administrative effectiveness. The 1843 default therefore reflected a patrimonial state formation that existed behind Greece's debt structure since the kingdom's institutions extracted too little, spent too inefficiently and distributed offices in ways that weakened both legitimacy and efficiency.

Yet the most obvious path-dependency is the institutional reliance on external financial dependence as a substitute for domestic capacity building. The guaranteed loan of 1833 was itself a foreign solution to the fiscal weakness of the new state but its proceeds were largely pre-committed to diplomatic, military and dynastic purposes while its service burden remained subordinated to domestic revenues to external claims. Reinhart and Trebesch treat the episode as an early example of a recurring Greek pattern in which foreign official actors help refinance or guarantee prior obligations and then demand adjustment which increases political interference while delaying a more decisive restructuring. Levandis's narrative of the 1843 crisis strongly supports that interpretation since the powers refused immediate relief and insisted on revenue assignment and retrenchment thereby keeping the country within a framework of prolonged official dependence rather than developmental reconstruction. The deeper historical significance of the 1843 default therefore lies in the way it fused the institutional residues of Ottoman era mediation and weak tax capacity with a new regime of great power financial supervision, producing a state that was independent in international law but constrained in fiscal practice[321].

The 1843 default shows that the problem was not reducible to short-term overspending or diplomatic misfortune but instead the new kingdom entered independence with low productive capacity, severe war damage and weak domestic extraction then adopted an expensive centralizing state project financed through an externally guaranteed loan whose effective proceeds were sharply reduced before reaching the treasury. In the run up to the default, repeated deficits, military budgets and withheld installments made debt service increasingly incompatible with the social and administrative realities of the kingdom. The default itself brought demands for retrenchment, assigned revenues and foreign oversight while its aftermath replaced absolutist

[320] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 41–45, 47–49; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 665–670.
[321] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (2015): 321–325; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," 11; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 45–46; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 665–670.

breakdown with constitutional politics under continued creditor pressure. The episode is thus best understood as the moment when the fiscal limits of post-Ottoman state formation were exposed numerically, institutionally and politically revealing a Greek State still governed by tax farming legacies, notability, patronage and external dependence at the very point where sovereign solvency required precisely the opposite qualities.

The Default of 1893 and the 1898 International Finance Commission

The 1893 default emerged from a fiscal structure that had become increasingly dependent on foreign borrowing, unstable export earnings and a public finance system unable to reconcile debt service with repeated military and infrastructure outlays. By the late 19th century Greece had already become a case of chronic external dependence with a sequence of large foreign loans after the settlement of the independence debts and with debt service consuming a rising share of budgetary receipts[322]. The fiscal background was shaped by a state that was still small, politically fragmented[323] and vulnerable to external shocks even as it attempted ambitious modernization under Prime Minister Charilaos Trikoupis[324]. The wider political landscape in the 1880s and the early 1890s remained one of altering elite leadership, unstable parliamentary majorities and intense rivalry among political factions while the fiscal state was forced to finance military preparedness, railways, ports and other public works through borrowing rather than through a stable tax base making the 1893 default the logical endpoint of a long borrowing boom rather than an isolated fiscal failure[325].

The scale and structure of the borrowing are central to the case as between 1879 to 1890 Greece contracted 6 major foreign loans totaling 630,000,000 gold Francs nominally but the issue discounts and commissions meant that only 458,000,000 France was actually realized from which around 100,000,000 Francs reached Greek treasury while the remaining funds were spent abroad purchasing weapons, conducting debt service and as flotation costs of earlier obligations[326]. The first loan of around 60,000,000 Francs was issued in 1879 at an interest rate

[322] Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 10–11.
[323] Georgios Chrysanthakopoulos, Fotios Koutentakis, and Athanasios Tagkalakis, *Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939*, 2–3.
[324] Charilaos Trikoupis (1832–1896) was a Greek statesman and multiple-term prime minister whose ambitious programme of infrastructure development, administrative reform, and economic modernization transformed late nineteenth-century Greece but relied heavily on foreign borrowing, contributing to the debt crisis that culminated in the 1893 default.
[325] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 55–76.
[326] Ibid, 66-70

of 6% of which only 44,000,000 Francs was realized intended for the retirement of the forced currency and other urgent needs[327]. The 1881 loan of 120,000,000 Francs was issued at an interest rate of 5% but only raised 89,520,000 Francs, secured on the national domain and customs duties of Athens, Piraeus, Patras and Zante[328]. The 1884 loan of 170,000,000 Francs was issued at a 5% interest rate yet yielded only 69,786,000 Francs and was linked to the repayment of bank advances and for railway construction with customs revenues from Volo, Arta, Tsagezi, Piraeus, Athens, Catacolo, Cephalonia and Kalamai pledged in service[329]. The 1887 Monopoly Loan of 135,000,000 Francs raised only 90,990,000 Francs which was utilised to finance military supplies and debt redemption and was secured on monopoly revenues from salt, petroleum, matches, playing cards, cigarette paper etc.[330] The 1889 loan of 155,000,000 realized only 111,373,500 Francs was issued at a 4% interest rate and had no specific revenue pledge while the 1890 railway loan of 89,875,000 Francs realized only 52,950,000 Francs and was secured on the railway property and net profits generated from the national railways[331]. These figures showcase a debt machine that depended on repeated market access, high discounts and successive refinancing while the underlying economy failed to generate corresponding productive returns.

The broader fiscal picture in the years immediately before default was therefore one of high expenditure, weak trade performance and growing debt service. Government expenditure rose from an average of 19.7% of GDP during absolute reign of King Otto to 21.3% during the constitutional monarchy era while primary expenditure remained near 15% of GDP showing that the rise was not driven by productive civil spending but by defense and debt service[332]. Debt service rose from an average of 4.5% of GDP in 1835-62 to an average of 6.4% from 1863-98 while defense expenditure occupied about half of primary expenditure across the 19th century[333]. On the revenue side, total current revenue rose only marginally from an average of 14.5% of GDP to 14.9% between 1833 and 1898 while total tax revenue excluding tariffs fell from an average of 8.2% of GDP between 1835-62 to 5.9% of GDP between 1863-98 indicating that the tax system was becoming relatively less effective rather than more while dependence on tariffs grew as tariff revenue increased from 3% of GDP to 4.6% and indirect taxes rose from 1% to

[327] Ibid, 67
[328] Ibid, 67
[329] Ibid, 68
[330] Ibid, 68-69
[331] Ibid, 69-70
[332] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper No. 119* (Hellenic Observatory, London School of Economics, 2017), 12–14.
[333] Ibid, 12-14

2.1% of GDP while direct taxes halved from 7.2% of GDP to 3.8% of GDP[334]. These shifts matter because the 1893 crisis was not caused by the absence of revenue in the abstract but by a tax structure that favored indirect extraction and custom duties while remaining vulnerable to trade shocks and exchange rate pressures.

In the 3 year lead up to the default, from roughly 1890 to 1893, it is possible to witness external conditions and intensifying fiscal strain as almost 33% of budgetary receipts was devoted to debt service by 1890 so the state had already crossed the threshold at which debt servicing could crowd out other public expenditure[335]. In 1891 a Europe wide economic slump particularly hit Greece hard as the country's most important export item: currants, suffered both from collapsing world prices and loss of market access due to rising tariffs from major European economies like France. 2/3rd of Greek export trade consisted of currants leading to export revenues stooping from 60,000,000 Francs to 20,000,000 in 2 years[336]. The drachma simultaneously depreciated sharply losing 30% against the Pound Sterling in 1891 and a further 60% depreciation in 1893 while the premium on gold rose from 30% in April 1891 to 60% at the start of 1893 as debt service required annual transfers of about 31,000,000 Francs worth of gold, this exchange rate deterioration turned an acute budgetary problem into a full blown balance of payment´s crisis[337].

Prime Minister Charliaos Trikoupis tried to prevent default by seeking new financing in London in 1892 for which he consented to an investigation of Greek finances by Major E.F.G Law, the resulting Law report attributed the weakness of Greek public finances to large military sending, overborrowing, a persistent trade imbalance and fundamental weaknesses in tax collection and enforcement[338]. He nevertheless concluded that Greece was not insolvent and that the crisis could be overcome with external financial assistance, a judgment that temporarily supported market confidence. Trikoupis also secured a bill on December 22, 1892 for the collection in gold of a certain tax estimated at 8,600,000 drachmas which he intended to use as a collateral for a new

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[334] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper No. 119* (Hellenic Observatory, London School of Economics, 2017), 13–14.
[335] Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 11.
[336] Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 11; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 75–76.
[337] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 76.
[338] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 76–77; Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 11–12.

loan[339]. Yet this did not have the intended effect and instead revealed the underlying weakness of Greece's sovereign balance sheet to international capital markets and the inability of the Greek State to meet its existing obligations without new debt[340].

The default itself occurred on December 1893 when Trikoupis effectively admitted insolvency by suspending debt service and asked for a 70% reduction on the interest of all gold loans, together with suspension of sinking funds and the return of revenues hypothecated to bondholders including those under the[341] *Societe De Regie*[342]. The immediate rupture was dramatic because the government moved from emergency funding devices to open default in a matter of months as foreign bond holder committees in Britain, France and Germany reacted angrily, rejecting force majeure and demanding new securities for payment[343]. On February 3rd, 1894 they met in Paris and insisted that any concession had to be temporary and must be accompanied by stronger safeguards over pledged revenues. The committee's response shows that the default did not lead to genuine debt relief; rather it provoked a negotiation over enforcement mechanisms, revenue assignment and the institutional control of the borrower's fiscal machinery.

The settlement process after the default was therefore protracted and coercive, with Trikoupis arguing that any concession could not be permanent and that Greece would resume normal service once economic conditions improved but the committees replied that they wanted the government divested of the revenues assigned debt service and those revenues administered by a company independent of the government[344]. The debtors resisted because they saw foreign control as an encroachment on sovereignty and they preferred domestic supervision to one that

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339 Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 11–12; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 76–77

340 Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–311; Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939," 2–5, 11–13.

341 Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," 311–313; Michael Waibel, "Echoes of History," 12

342 The 1887 Monopoly Loan established the Société de Régie des Monopoles, which transferred supervision of key state monopoly revenues to an entity operating on behalf of foreign creditors. The arrangement reflected growing creditor distrust of Greek fiscal administration and foreshadowed the much broader loss of fiscal autonomy imposed through the International Financial Commission after 1898.

343 ² Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 13–15.

344 John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 78–79; Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 12–13

was externally dictated. The successor of Trikoupis, Prime Minister Delyannis[345] attempted a compromise in 1895 by proposing an independent Public Debt Commission made up of Greek officials and bank directors but the creditors still wanted more comprehensive and enforceable control over the assigned streams[346]. In the negotiations of 1895-97, the Greek side proposed to pay 60% of surplus revenues to the treasury and 40% to the creditors while also seeking a new loan to redeem internal short-term obligations but bondholders regarded this as insufficient and talks remained stalled[347]. The stalemate lasted until the Cretan crisis[348] and the war with Turkey created a much harsher bargaining environment for Greece.

The three year aftermath of the 1893 default shows a deepening transition from private refinancing attempts to internationalized official control primarily because of the ongoing Greco-Turkish War of 1897 after which the Great powers linked the war indemnity and Greek debt to an international regime of supervision. The peace arrangement required Athens to pay war indemnities to the Ottoman Empire and to accept an International Finance Commission of Control (IFC) in Greece composed of representatives of the mediating powers[349]. The 1898 indemnity and economic loan amounted to 170,000,000 Francs at a 2.5% interest rate with 152,000,000 Francs disbursed immediately and 93,936,420 Francs paid to the Ottoman Empire, while the rest was used to liquidate current obligations and convert floating debt[350]. The 1898 Law of Control passed in the Greek parliament gave the IFC absolute control over the collection and employment of revenues dedicated to the war indemnity loan and all other national debts operating completely beyond the jurisdiction of the national government[351].

The IFC supervised the main revenue streams of the government from custom duties to its revenue monopolies on commodities like Kerosene, salt, tobacco etc. It also retained power over treasury bills, paper currency and tax modifications with the power to veto all fiscal decisions

[345] Theodoros Delyannis (1820–1905) was one of the dominant Greek politicians of the late nineteenth century and the principal rival of Charilaos Trikoupis. Whereas Trikoupis emphasized fiscal reform, infrastructure development and modernization, Deligiannis adopted a more populist and nationalist political style, often opposing new taxes and austerity measures. Their rivalry reflected the broader tension between state-building and political patronage that shaped Greek politics in the decades preceding the 1893 debt default.
[346] John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 80–82
[347] Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 13–15.
[348] The Cretan Crisis (1895–1898) refers to the uprising of the predominantly Greek Christian population of Crete against Ottoman rule and the subsequent intervention of Greece, which culminated in the Greco-Turkish War of 1897. Greece's defeat in the war and the resulting indemnity obligations contributed directly to the establishment of the International Financial Commission in 1898.
[349] L. S. Stavrianos, *The Balkans Since 1453* (New York: Holt, Rinehart and Winston, 1958), 445–446.
[350] Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 15–16.
[351] Ibid, 15-16

which it deems contrary to creditor interests[352]. The revenue thus collected was to be transferred weekly and converted into foreign exchange for debt service. Such a post default adjustment had immediate macroeconomic consequences as under the IFC Greece slashed its twin deficits with the fiscal deficit reduced to 0.6% of GDP during the stabilization period 1899-1911 as average inflation fell to 0% at the turn of the century[353].Although debt service was its primary objective the Commission's management gradually generated budget surpluses as the drachma's position appreciated and debt amortization proceeded, this is fundamentally because the IFC represented an externally supervised structure which bypassed existing institutions in the Greek State to ensure full repayment of debts through unprecedented revenue capture, exchange rate improvement and controlled fiscal retrenchment. The Greek State could continue to govern but its fiscal sovereignty was narrowed to the residual funds left after the ICF's assigned claims had been satisfied.

The Ottoman institutional legacy present in the episode begins with the role 19th century Greek tax structure had in pushing the country towards foreign loans for revenues and then ultimately the default. The tax structure remained rooted in the tithe, the rental of national lands and the farming out of tax collection to local dignitaries and a system that privileged intermediaries making reform very difficult[354]. The fiscal-state study notes that tax revenue initially depended on Ottoman style direct levies and that private tax collectors were a major obstacle to reform. By the 1890s the weakness of direct taxation was evident in the fiscal data as direct tax revenues had fallen sharply as a share of GDP while indirect taxes and tariffs had become more important. The 1893 crisis therefore did not reflect a modern tax state failing at the margin; instead it reflected a tax regime that still lacked the administrative depth and political authority to tax a broad base without distortion or evasion[355].

A second Ottoman legacy was the continued power of local primates and tax mediation through

[352] Ibid, 15–18
[353] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper No. 119* (London: Hellenic Observatory, London School of Economics and Political Science, 2017), 15–17; Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 16–18.
[354] George Alogoskoufis, *The State and the Economy of Modern Greece* (Athens: Gutenberg, 2019), 45–49; Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939," 3–6.
[355] ¹ George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper No. 119* (London: Hellenic Observatory, London School of Economics and Political Science, 2017), 13–14; Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939," 3–6, 11–13.

regional brokerage networks inherited from Ottoman rule as the modern fiscal state study explicitly connects domestic political organization to the influence of local primates and patronage. Even as the State expanded representation through a constitutional monarchy local functionaries remained important for political mobilization and tax compliance which meant that central authority often had to bargain with rather than replace communal power structures. This mattered in the 1890s because a tax system mediated through local elites was poorly suited to generate uniform and predictable revenues needed to cover all of the State's spending responsibilities, national aspirations and service prior debt. The crisis thus exposes a State whose territorial integration was incomplete and whose fiscal extraction still depended on social intermediaries rather than direct administrative command[356].

This was further worsened by from path-dependency of clientelist politics and patrimonial administration as government resources were used for partisan purposes instead of the necessary capital expenditure to fuel Greek economic growth, push industrialisation, trade, commerce etc. which in the long run would have raised the extractive capacity of the nation's tax payers. Instead funds were spent by political groupings to appoint their loyalists to administrative posts thereby failing to build an autonomous fiscal bureaucracy. Trikoupis tried to strengthen administrative capacity but the broader political environment remained one in which ministries, party factions and public appointments were closely linked. The consequence was a State that could borrow rapidly but could not reliably transform debt into productive capacity[357].

Even after the 1893 default, Prime Minister Delyannis's proposal for a Public Debt Commission shows the persistence of an administrative culture that sought to manage fiscal distress through patronage compatible institutions rather than through fully depoliticized revenue administration. The story of the 1893 default therefore belongs to a patrimonial political economy in which institutional posts and activities such as the public office, taxation and debt service were all incentivised towards partisan competition[358].

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[356] Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939," 3–6, 11–13; George Alogoskoufis, *The State and the Economy of Modern Greece* (Athens: Gutenberg, 2019), 45–49.

[357] Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939," 5–8, 11–13; George Alogoskoufis, *The State and the Economy of Modern Greece* (Athens: Gutenberg, 2019), 49–55; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," 307–311.

[358] Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939," 5–8, 11–13; George Alogoskoufis, *The State and the Economy of Modern Greece* (Athens: Gutenberg, 2019), 49–55; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 80–82.

The broadest legacy is external financial dependence over domestic capacity building. Reinhart and Trebesch identify Greece's debt crises as recurring episodes in which foreign creditors entered after repayment difficulties, imposed conditionalities and prolonged financial dependence. The 1893 default fits this pattern closely because the State had relied on foreign loans to finance military and infrastructural ambitions but the proceeds were largely consumed by debt service, armaments and budget deficits rather than by durable domestic investment. The final settlement did not restore financial autonomy; instead , it replaced one borrowing regime with another, a more intrusive structure of international oversight. This is why the 1893 crisis is best interpreted not simply as a failure of balance sheet sustainability but as a turning point in which external dependence became formally institutionalized through the IFC[359].

In analytical terms, the 1893 default showed how a debt driven state can preserve political continuity while losing fiscal freedom. The debt burden had become so large that by 1893 it was consuming more than a third of the national budget, while trade shocks cut the country's export earnings and the drachma's depreciation raised the local currency value of foreign obligations. Trikoupis's emergency funding loan and tax in gold measures demonstrate that the government understood that crisis as liquidity and solvency intertwined but the market read these interventions as a sign of fragility not recovery. The final arrangement with the IFC confirmed that creditors would not grant a cut even when debt service was already unaffordable in the absence of external control. The 1893 episode therefore belongs to the same long arc as the 1843 default, but it is even more revealing because the State had by then expanded its borrowing, built infrastructure and deepened its fiscal institutions without breaking the structural dependence on foreign finance[360].

The case study also highlights a second order lesson about State capacity, public revenues had increased over time but not in a manner sufficient to outrun the rise in debt service and military spending. Industrial growth and transport investment in the 1880s were real yet they were too narrow and too late to offset the collapse of currant earnings and the inherited fragility of the tax base. Looking from such a perspective, the default of 1893 was not a paradoxical failure of

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[359] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–314; Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 14–18.

[360] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–314; Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 11–18; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper No. 119* (London: Hellenic Observatory, London School of Economics and Political Science, 2017), 13–17.

reform but the outcome of partial modernization undertaken under adverse fiscal conditions and financed by borrowing that was itself increasingly expensive and externally conditioned. Greece did not lack modernizing ambitions, it lacked a domestic fiscal structure capable of supporting them without recurrent recourse to external finance[361].

When seen in the long-run, the 1893 default stands as the classic 19th century Greek debt crisis: heavy borrowing from abroad, a revenue system still rooted in weak extraction and local mediation, a sharp external shock to export earnings, a sovereign suspension of debt service and then a settlement that transferred control of fiscal resources to foreign powers. The episode is therefore not best read as a momentary fiscal collapse but as a revealing case of how Ottoman institutional legacies, post-independent state building and external financial dependence interacted to produce recurrent sovereign insolvency.

Cycle II: Waging a Peaceful War, 1899 to 1949

Under the shadow of the 1898 settlement after the crisis period of the 1890s Greece under the supervision of the fiscal supervision of the protecting powers manifested as the IFC managed to stabilize its currency, public finance and its wider economy. The country entered a period of fiscal stabilization in which primary expenditure was held at 14.1% of GDP as fiscal deficit fell to 0.6% of GDP allowing Greece to regain access to external borrowing and eventually adopt the gold standard in late 1909, developments that formed the background to the Balkan Wars (1912-13)[362]. Yet the close of the 19th century therefore did not mark the disappearance of external dependence, but rather its reorganisation into a more disciplined framework that simultaneously constrained sovereignty and restored a measure of financial order. As per the fiscal reconstruction of Alogokoufis the apparent consolidation of the pre-1912 years did not resolve the structural problem that had linked Greek development to external financing.

Alogokoufis also argues that Greece historically suffered from insufficient domestic savings relative to its investment needs and therefore periods of easier access to international capital

[361] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper No. 119* (London: Hellenic Observatory, London School of Economics and Political Science, 2017), 13–17; Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939," 11–13; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–314.
[362] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (Hellenic Observatory, LSE, 2023), 24–25.

repeatedly encouraged external borrowing that later produced debt crisis as international conditions deteriorated starting with the Balkan Wars of 1912-13, the first World War 1914-18 and the subsequent Wars with the newly established Turkish Republic until 1922 which together overturned the limited equilibrium achieved after 1898[363]. Primary expenditure rose to 23.6% of GDP as defense expenditure increased from 5% of GDP during the stabilization years to 14% of GDP in the war years while average fiscal deficits climbed to 14.2% of GDP as external and domestic borrowing were constrained during much of this period, the Greek State relied heavily on monetary financing and average seigniorage rose to 7.8% of GDP while average inflation skyrocketed to 25.6% in the 1920s[364]. The interwar years inherited both the social consequences of war and the economic burden of refugee settlement after the Treaty of Lausanne culminating in the 1923 population exchange. In the period from 1923-39 primary expenditure remained very high at 23.9% of GDP not due to defense expenditure but because of exceptionally high civil expenditure which rose to 16.7% of GDP as the State financed refugee relief and resettlement[365]. Debt service also increased to 6.7% of GDP during the interwar years primarily caused by novel international borrowing which came with a whole new set of obligations.

Moreover on the revenue side the interwar Greek State became more extractive yet not more resilient as per Alogokoufis who trace a sharp rise in Total government revenues averaging 26% of GDP between 1923-1939 while tax revenues reached 12.7% of GDP fuelled by a growth in indirect taxes reaching 7.9% of GDP[366]. Tariff revenues also increased strongly to 7.6% of GDP which shows that the fiscal system was drawing heavily on indirect taxation and customs receipts rather than overcoming the deeper structural weaknesses of the economy[367]. Such a background forms the bridge to the 1932 default as the interwar Greek economy did achieve a temporary stabilization through the 1926-27 program and the adoption of the gold standard in 1928 in line with League of Nations guidelines but that stabilization merely inaugurated a new debt cycle as country soon succumbed to external borrowing, a fixed exchange rate commitment

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363 George Alogoskoufis, “The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present,” *GreeSE Paper* No. 184 (Hellenic Observatory, LSE, 2023), 17–18; George Alogoskoufis, “The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece,” *GreeSE Paper* No. 189 (Hellenic Observatory, LSE, 2023), 24–25.
364 George Alogoskoufis, “The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece,” *GreeSE Paper* No. 189 (London: Hellenic Observatory, LSE, 2023), 24–26.
365 Alogoskoufis, “Twin Deficits, Monetary Instability and Debt Crises,” 23–24; Clogg, *Catastrophe and Occupation and Their Consequences, 1923–49*, 98–100; Tsoulfidis and Zouboulakis, “Greek Sovereign Defaults in Retrospect and Prospect,” 1–3.
366 George Alogoskoufis, “The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece,” *GreeSE Paper* No. 189 (London: Hellenic Observatory, LSE, 2023), 24.
367 Carmen M. Reinhart and Christoph Trebesch, “The Pitfalls of External Dependence: Greece, 1829–2015,” *Brookings Papers on Economic Activity* (Fall 2015): 307–308.

and a vulnerable reserve position[368]. Therefore as the world fell into the depths of the Great Depression in the 1930s Greece abandoned the gold standard in 1932 and entered what Alogokoufis identifies as its fourth sovereign default in 1932.

National Expansion and the Default of 1932

Greece's 1932 default should be read as the culmination of a long external dependence cycle rather than as a sudden isolated event with the country entering the Great Depression already carrying a large external debt burden, fragile exchange position and fiscal structure that had repeatedly relied on borrowing to bridge recurring imbalances. Analysis of interwar archival documents show a decisive rupture linked to the abandonment of the interwar gold standard, the collapse of the drachma and the resulting inability to service foreign currency debt from domestic revenue sources[369].

The crisis context was shaped by a political order still marked by instability after the Asia Minor catastrophe and refugee influx, with the republic, military coups and factional conflict producing repeated governmental turnover in the 1920s and 1930s. Fiscal institutions were under strain because the State was financing refugee settlement, military expenses and debt service at the same time while the tax system relied heavily on indirect taxation and was increasingly skewed away from direct extraction capacity. By 1929 the per capita public debt was about $100 slightly above the average per capita income but by 31st March 1940 total public debt had reached 630 Million French Francs with foreign debt claims amounting to 9.25% of national income[370]. The underlying macro-fiscal picture was therefore one of a State that had expanded its obligations faster than its autonomous revenue base and had become structurally exposed to foreign financial conditions.

In the three years leading up to the default, the most important pressure was the deterioration of external conditions characterised by a global depression and the break in the gold-standard

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[368] *Economic History of Greece – Interwar Economy Archive*, section on Stabilization and the 1932 Crisis; Lefteris Tsoulfidis and Michel Zouboulakis, "Greek Sovereign Defaults in Retrospect and Prospect," 1–3; *Banking and Central Banking in Pre-WWII Greece: Money and Currency Developments*, chapter on the 1928 stabilization and gold-exchange standard.

[369] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* 46, no. 2 (2015): 307–312; Lefteris Tsoulfidis and Michel Zouboulakis, "Greek Sovereign Defaults in Retrospect and Prospect," 1–4; *Economic History of Greece – Interwar Economy Archive*, sections on the Stabilization Programme, the Great Depression, and the 1932 Default.

[370] *Economic History of Greece – Interwar Economy Archive*, pp. 9–10.

system which sharply raised the local currency cost of servicing foreign debts. Archival sources coupled with research from Reinhart and Trebesch, Koutentakis and Stavrianos note that after September 1931 when the Bank of England left the gold standard, the drachma depreciated and foreign exchange reserves became inadequate so obligations denominated in pounds and dollars could no longer be met from State revenues raised in drachmas[371]. This was not simply a balance of payments shock, it also interacted with the structure of Greek exports which were concentrated in tobacco, currants, olives and related agricultural products, all of which were vulnerable to global downturns and falling remittances[372]. The result was a classic sudden stop environment in which external financing became harder to roll over exactly when foreign currency liabilities became more onerous.

The fiscal statistics for the interwar period reinforce this interpretation, the dataset in the attached sources shows that average total government revenue between 1923-39 rose to 26% of GDP but primary government spending also reached 23.9% leaving only a modest average primary surplus of 2.1% for the period[373]. The average masks instability as Koutentakis et. al. records a peak in total government revenue of around 33% of GDP in 1930 and a subsequent fall to below 25% in the remaining years while the agricultural sector weakened and the economy was hit by the depression[374]. The debt problem therefore worsened not because Greece had ceased extracting revenue but because the composition and currency denomination of debt collided with a collapsing external environment. This is why the literature treats 1932 as the fourth major external default in the long Greek debt cycle sequence and links it directly to the gold standard exit.

The settlement and rupture of the default should be understood through the broader pattern of Greek crisis management visible in the sources. The default of 1932 is classified alongside earlier debt restructurings as a long resolution episode with the 1932 default not fully settled until 1964 implying a delay of 32 years in one summary table and 30 years in another related account of the same episode's resolution horizon[375]. The debt instrument set associated with the

[371] *Economic History of Greece – Interwar Economy Archive*, pp. 9–10; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," 307–312; Lefteris Tsoulfidis and Michel Zouboulakis, "Greek Sovereign Defaults in Retrospect and Prospect," 2–4; L. S. Stavrianos, *The Balkans since 1453*, section on the Great Depression and the 1932 Greek default.

[372] L. S. Stavrianos, *The Balkans since 1453* (New York: Rinehart & Company, 1958), 681.

[373] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (2023), 23

[374] Georgios Chrysanthakopoulos, Fotios Koutentakis, and Athanasios Tagkalakis, *Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939*, Figure 1 and accompanying discussion, pp. 19–20.

[375] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 327–332

1932 resolution involved 54.7 Million pounds of bonds restructured and 64.5 Million pounds of interest arrears with the haircut estimated between 64% and 86% depending on whether arrears are included[376]. In the immediate period after default borrowing shifted toward official channels and the interwar pattern of foreign borrowing had already included League of Nations loans, refugee settlement credits and foreign stabilization support[377]. The settlement thus did not represent a clean break from dependence; it deepened the migration of debt from the private market to official supervision.

Borrowing patterns before the rupture also mattered for the shape of the default. Archival sources from the interwar period show that in the 1920s Greece contracted multiple foreign loans for refugee settlement and public works while also restoring to forced domestic borrowing through conversion of banknotes and treasury instruments[378]. It also notes that foreign borrowing from 1922 to 1932 amounted to 1,022 Million French Francs and that 37% of foreign loans went to refugee settlement, 31% to productive works and 32% to current budgetary needs and debt service[379]. Stavrianos also reports that the League of Nations arranged loans totalling 13 Million pounds of refugee settlement while the refugee settlement commission itself received 10 Million pounds in 1924 and 6.5 Million pounds in 1927[380]. These numbers show that the 1932 rupture was preceded by a decade in which Greece had become increasingly reliant on a mix of foreign official credit, debt recycling and domestic monetary improvisation.

The pre-default pressures were also institutional as the fiscal dataset shows that between 1912 and 1922 Greece recorded average military spending of 14% of GDP compared with 7.2% civilian spending and a sharply negative average primary balance of -8.7%[381]. By 1923-39, civilian spending had risen to an average of 16.7% of GDP while military spending fell to 7.2% indicating a partial peacetime normalization but not a restoration of fiscal autonomy[382]. That change was offset by the burden of refugee settlement involving roughly 1.5 Million refugees in a country of only 5.5 Million people[383]. The State was therefore trying to stabilize a war-exhausted and demographically transformed economy while still servicing inherited debt and foreign obligations.

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[376] Ibid, 329-330

[377] *Economic History of Greece – Interwar Economy Archive*, 9–10; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 330–332; Lefteris Tsoulfidis and Michel Zouboulakis, "Greek Sovereign Defaults in Retrospect and Prospect," 2–4.

[378] *Economic History of Greece – Interwar Economy Archive*, 7–10

[379] *Economic History of Greece – Interwar Economy Archive*, 9–10.

[380] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 676.

[381] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, LSE, 2023), 23-25

[382] Ibid, 23-25

[383] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 676.

The default event itself was marked by the immediate rupture between debt service capacity and debt service obligations. Studies by Reinhart and Trebesch explicitly state that the debt crisis of the early 1930s was rooted in the drachma's declining exchange rate, falling central bank reserves, lack of foreign exchange and making foreign currency debt unserviceable from State tax revenues[384]. The Greek economy's return to growth after 1933 did not undo the default as the problem was not only output but the mismatch between the currency of revenue and the currency of debt. This is why Reinhart and Trebesch frame 1932 not as a simple payment delay but as an external default tied to the end of gold standard convertibility[385].

The three year aftermath of the default was marked by institutional adjustment rather than immediate recovery of fiscal sovereignty. As the research of Tsoulfidis et. al. identifies, the economic impact of the depression and the default itself was less severe than expected with output recovering relatively quickly and import substitution expanding but political consequences were far more serious[386]. As Koutentakis notes electoral and constitutional instability continued as between the five years from 1922 to 1926 the country was characterised by four military coups, six high-profile executions, two royalist expulsions of Kings, the later the proclamation of a Republic and the ultimate emergence of the Metaxas dictatorship by 1936 till 1941[387]. Thus the default did not put an end to macroeconomic fragility; it coincided with a reordering of the political system toward stronger executive and authoritarian control. Fiscal adaptation therefore occurred in a context of institutional contraction rather than broader liberal consolidation.

The attached data also indicate that after 1932 the economy retained its dependence on a narrow export structure and on indirect taxation. In 1938, tobacco accounted for 45.5% of export value currants 12.4%, olives and olive oil 9.8% and Wine 2.9% while Greece imported three quarters of the raw materials used by industry and one third of its cereals[388]. The same source states that indirect taxes contributed between 75% and 82% of all tax proceeds during the interwar years,

[384] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 307–312; *Economic History of Greece – Interwar Economy Archive*, 9–10.
[385] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 307–312, 325–326; *Economic History of Greece – Interwar Economy Archive*, 9–10.
[386] Lefteris Tsoulfidis and Michel Zouboulakis, "Greek Sovereign Defaults in Retrospect and Prospect," 3–4; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," 319–325.
[387] Georgios Chrysanthakopoulos, Fotios Koutentakis, and Athanasios Tagkalakis, *Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939*, Figure 1 and accompanying discussion, 7-13
[388] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 680

placing a heavy burden on necessities and poor households[389]. So although the State recovered some revenue capacity, it did so on a regressive and economically narrow base. The adjustment after default was therefore less an institutional breakthrough than a continuation of constrained fiscal extraction under adverse external conditions.

The Ottoman legacies visible in the episode are indirect but important especially in the institutional form of extraction and local mediation. The most obvious continuity is the persistence of a broken, highly mediated taxation system in which the State relied on indirect levies, monopolies and ad hoc extraordinary measures rather than a broadly legitimate direct tax regime. The fiscal dataset shows that direct taxes had historically been weak and that indirect taxes, tariffs and other revenue sources increasingly compensated for them especially in the post 1920s period[390]. That pattern echoes the older Ottoman legacy of weak direct fiscal penetration and heavy reliance on intermediated extraction even if the institutional form had changed by the interwar period.

Powerful local primates and communal tax mediation also survive in the broader social structure of interwar Greece though transposed into modern political forms. Koutentakis and Stavrianos also emphasize that much of Greek politics remained organized through local clan control, middle class notables and provincial power brokers especially before the Venizelist[391] reforms displaced part of the old oligarchy[392]. Even after the Venizelist reforms, agrarian interests retained considerable importance within the Greek economy. The continued predominance of agricultural exports and the state's heavy reliance on indirect taxation suggest the persistence of uneven fiscal penetration and limitations in the development of a uniform national tax system[393]. From such a perspective communal mediation did not disappear, it was embedded in a political order that still depended on local brokerage for implementation.

The lock-in effects of clientelist politics and patrimonial administrative practices are even more

[389] Georgios Chrysanthakopoulos, Fotios Koutentakis, and Athanasios Tagkalakis, *Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939*,18-23

[390] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," 24; Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990), 99–104; Halil İnalcık and Donald Quataert, *An Economic and Social History of the Ottoman Empire, 1300–1914* (Cambridge: Cambridge University Press, 1994).

[391] The term "Venizelist reforms" refers to the state building, administrative, fiscal, military, and constitutional reforms associated with the governments of Eleftherios Venizelos in the early twentieth century, particularly between 1910 and 1920, which sought to modernize and centralize the Greek state.

[392] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 665–670.

[393] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 681; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (2023), 24.

directly visible. Reinhart and Trebisch describe how public administration had long been plagued by a spoils system and the fiscal and political archive repeatedly connects weak policy consistency to the inability to implement reform. The interwar political chronology reinforces this showcasing rapid turnovers, coups, patronage politics and institutional disruption and discontinuity[394]. The 1932 default was thus not just a macroeconomic outcome but also a symptom of a State whose administrative capacity was undermined by factional competition and opportunistic politics. This is precisely the kind of patrimonial fragility that makes external borrowing seductive and dangerous at once.

The explicit institutional lock-in effect resulting from the path-dependency of external financial dependence trumping domestic capacity building is also present in the episode. The core argument of Reinhart and Trebisch is that Greece repeatedly substituted foreign borrowing for domestic financial depth and that each external debt boom ended in a bust, default and loss of sovereignty[395]. The 1932 episode fits that pattern exactly as foreign loans for refugee settlement, war debts and stabilization were used to sustain State functions that domestic revenues and savings could not fully finance. The result was a prolonged debt overhang in which official creditors increasingly shaped policy making it an external dependence crisis rooted in earlier institutional weaknesses rather than as a purely interwar macroeconomic shock[396].

The strongest conclusion drawn from the 1932 default was that it was a crisis of currency, credibility and institutions at once as the debt burden was not merely large; it was also externally denominated, politically contingent and embedded in a State that had long favoured adjustment by borrowing over durable domestic capacity building. The aftermath confirmed that the default did not solve those structural problems as revenues remained narrow, fiscal and political institutions remained unstable and foreign debt continued to shape policy into the 1960s making the 1932 default the clearest interwar expression of a long historical pattern of external dependence and weak fiscal sovereignty.

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[394] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 312–314; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 675–676; Fotios Koutentakis, *Economic History of Greece: Interwar Economy*, 3–4.

[395] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 307–312, 319–326.

[396] Economic History of Greece – Interwar Economy Archive, 9–10; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 676; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 307–312, 319–326.

Cycle III: Old Wine in a New Bottle? 1950 to 2010

The second cycle ended in 1949 with Greece territorially consolidated but economically shattered by occupation, hyperinflation and civil war, the third debt cycle from 1950 began from a condition of institutional fragility and acute reconstruction needs rather than from a position of accumulated strength. In Alogoskoufis's periodization, 1950-2021 constitutes a distinct third cycle of economic and social development with its opening phase differing from the war saturated 1899-1949 era because its main objective was no longer territorial consolidation but economic reconstruction, political stabilization and eventual western and European integration[397].

The immediate bridge from Cycle III is therefore twofold, firstly the civil war's[398] end removed the most destructive domestic obstacle to stabilization and made possible a new policy regime centered on reconstruction, fiscal consolidation and monetary reform. Another development is Greece's incorporation into the Western alliance after the 1940s supplied external protection, aid and institutional anchoring that became critical for the next cycle's growth model. The civil war belongs in the opening bridge not only because it closed the previous cycle but because it shaped the political economy of the next one[399]. Alogoskoufis stresses that postwar Greece initially remained politically unstable yet the end of the civil war allowed policymakers to undertake the reconstruction efforts of the late 1940s and early 1950s culminating in the stabilization measures that underpinned the subsequent growth miracle[400]. The period after 1949 thus inherited destroyed productive capacity, monetary disorder and social division from the previous cycle but it also inherited a strong political imperative to rebuild the State and the economy on firmer foundations.

Postwar reconstruction was not automatic and the sources emphasize a cluster of policy

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397 George Alogoskoufis, *The State and the Economy of Modern Greece: From 1821 to the Present* (Athens: Gutenberg, 2019), 3-7

398 The Greek Civil War (1946–1949) was fought between the internationally recognized Greek government, supported by Britain and later the United States, and the communist-led Democratic Army of Greece (DSE). The conflict ended with the defeat of the communist forces in 1949 and marked the conclusion of a prolonged period of war and political instability that had begun with the Second World War and Axis occupation.

399 George Alogoskoufis, *The State and the Economy of Modern Greece: From 1821 to the Present* (Athens: Gutenberg, 2019), 7, 11, 27

400 Ibid, 7, 11, 27

decisions rather than a spontaneous recovery. The foundations of the high-growth era were laid through Marshall Plan aid, fiscal and monetary stabilization in the early 1950s, the 1953 devaluation of the drachma and the 1954 monetary reform all of which helped create a framework for rapid reconstruction and recovery. This sequence matters analytically because it marked one of the rare periods in Greek history when growth was not driven by destabilizing foreign borrowing but by higher domestic savings intermediated through the domestic banking system[401].

The exceptional character of the 1950s and the 1960s is central to understanding the later relapse into crisis. Alogoskoufis identifies 1950-1973 as the only prolonged period in which Greece effectively the twin deficits while Reinhart and Trebesch similarly describe the decades from the 1950s to 2000 as the most prosperous and financially stable period in modern Greek history, characterized by greater home bias and a comparatively low external debt share[402]. In this phase, the fiscal deficit averaged roughly zero, the current account deficit remained manageable[403], domestic savings financed high investment and Greece combined rapid growth with monterey stability and without external debt crises[404]. This successful phase did not eliminate structural vulnerabilities; it suspended them under a more disciplined domestic and international setting. Even then, Greece still relied on substantial external grants, first from the United States and later from the European Community[405] but the balance between domestic finance and external support remained far more stable than in the debt-driven episodes that preceded 1893, 1932 and 2010[406]. The post-war decades therefore established the benchmark against which the subsequent deterioration after 1974 becomes intelligible.

[401] Greece's Economic Development and Early European Integration: Business Strategies and State Policies, 1945–1962, pp. 45–46; George Alogoskoufis, *The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present*, 25–27; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (2015): 307–308.
[402] George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," *GreeSE Paper* No. 184 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 5–6, 11–12; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–309.
[403] George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," *GreeSE Paper* No. 184 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 5–6, 11–12.
[404] George Alogoskoufis, "The State and the Economy of Modern Greece," 11–12; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–309.
[405] *Greece's Economic Development and Early European Integration: Business Strategies and State Policies, 1945–1962*, 45–46; Alogoskoufis, "The State and the Economy of Modern Greece," 25–27.
[406] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–309.

The regime change of 1974 opened the second phase of the third cycle with the restoration of parliamentary democracy ending the military Junta and gradually healing the divisions of the civil war era while socially it widened participation and strengthened the claims of urban middle classes and organized interests in the State. Economically, the post 1974 era marked a decisive shift away from the fiscal discipline and monetary stability of the 1954-1973 period[407]. Alogoskoufis treats the post 1974 settlement as a democratic and social transformation but one tied to weaker macroeconomic performance. The pursuit of social goals, redistribution and welfare State expansion was politically durable yet it was increasingly financed through public borrowing rather than through a commensurate revenue base or productivity gains[408]. This resulted in a return of the twin deficits under previous institutional path dependencies: partisan competition, clientelism and redistributive state expansion. The 1980s are crucial because they changed the internal mechanics of Greek indebtedness. This decade was one of the rare periods in which fiscal and monetary instability was not associated with war or defense emergencies but with rising government employment, public sector wages, transfer payments and a deliberate attempt to redistributive income and wealth through state borrowing[409]. (Alogos and Reinhart) Government spending climbed sharply relative to GDP reaching 35% of GDP in the 1980s and to 45% of GDP by the 1990s, fiscal balances deteriorated, public debt rose and inflation accelerated because deficits were financed through a mixture of domestic borrowing and seigniorage[410].

The significance of the 1974 regime change for the later sovereign crisis therefore lies less in a single constitutional event than in the political economy it enabled. After the restoration of democracy, party competition and expanded social claims made fiscal adjustment politically costly while clientelism and administrative weakness reduced the State's ability to align expenditure, taxation and competitiveness. In Alogoskoufi's account, the post 1974 order generated an unsatisfactory but durable equilibrium sustained for a long period by European

[407] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 114–15.
[408] George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," *GreeSE Paper* No. 184 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 12–13; Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 114–15.
[409] George Alogoskoufis, "Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," 29–30; Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 114–15; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 315-317.
[410] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 29, 40–41.

transfers that masked the underlying weaknesses of the economy. European integration intensified this pattern by introducing what can be described as progressively softer external constraints[411].

Greece joined the European Economic Community in 1981 and the Euro Area in 2001 and these steps strengthened its geopolitical anchoring in Europe but also relaxed financing constraints by improving market confidence, lowering nominal and real interest rates and facilitating rising external borrowing. Reinhart and Trebesch add that after the country's Euro entry, external indebtedness more than doubled from about 75% of GDP in 2001 to about 180% of GDP by 2010 while a growing share of bonds that appeared "domestic" were in fact held by non-residents[412].

These "soft constraints" were reinforced by grants and transfers that reduced the visible cost of adjustment. Reinhart and Trebesch show that Greece was a major recipient of Marshall Plan aid in the 1950s and of transfers from the European Economic Community transfers after 1981, reaching around 5% of GDP annually which helped sustain external financing but also formed part of a longer history of dependence on external sources[413]. The combination of low borrowing costs, steady official transfers and the political prestige of European integration made it easier to postpone reforms in taxation, administration and competitiveness[414].

The transition from the 1990s to the 2000s sharpened these contradictions as disinflation in the 1990s pursued in preparation for Euro entry succeeded in lowering inflation but it did not fully resolve fiscal weaknesses but it worsened competitiveness problems. Once Greece entered the Euro Area, lower real interest rates and easier financing generated a period of Euphoria, higher growth and renewed investment but they also encouraged a sustained widening of the current

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[411] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 114–18; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 310–315;George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," *GreeSE Paper* No. 184 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 12–13, 25–27.
[412] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 320–323.
[413] Ibid, 316-318
[414] Ibid, chap. 13-16

account deficit and a new surge in external borrowing[415]. Therefore the debt cycle from Cycle II to 2010 can therefore be summarized as historical path-dependence rather than an isolated accident. Civil War and postwar devastation created the need for reconstruction; post war stabilization and domestic finance led growth created a successful but exceptional phase as the 1974 regime change expanded democratic legitimacy but also state claims and fiscal pressures and the EEC and Euro membership softened financing constraints without hardening domestic institutions enough to absorb them. By the 2000s, Greece had re-entered the old pattern identified by both Alogoskoufis and Reinhart-Trebesch: twin deficits, weak savings, widening external imbalance and increasing dependence on foreign funding this time under the institutional cover of European monetary union rather than under the older gold-standard of great power frameworks[416].

The chapter treats the 2010 crisis as the culmination of a long post 1974 deterioration in the relationship between fiscal policy, domestic savings, competitiveness and external financing. It focuses on mechanisms rather than moral judgements, identifying how regime change, fiscal expansion and Euro-era participation altered borrowing incentives, creditor structures and adjustment options. It pays special attention to debt composition as Reinhart and Trebesch argue persuasively that the distinction between domestic and external debt, especially debt held by non-residents, is central to understanding why the 2010 episode became both an external-financing crisis and a sovereignty-constraining rescue process. On that basis, the 2010 case study below isolated the mechanisms detected in the final phase of the third cycle, its objective is to show how a domestic welfare-state expansion financed by borrowing, combined with low domestic savings, eroding competitiveness, euro-enabled capital inflows and a creditor structure increasingly external in substance, reproduced a historically familiar Greek crisis pattern under modern European institutional forms.

[415] Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press, 2009), chap. 13–16.

[416] George Alogoskoufis, “The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece,” 40–41; Carmen M. Reinhart and Christoph Trebesch, “The Pitfalls of External Dependence: Greece, 1829–2015,” *Brookings Papers on Economic Activity* (Fall 2015), 314–317, 320–323, 325–326; Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press, 2009), chap. 13–16.

The Self-Serving State and The Road To the 2010 default

Greece had moved from the unusually stable 1950s-1960s regime of high domestic savings and balanced external accounts into a post 1974 order defined by redistribution through borrowing, widening current account deficits and dependence on external finance. This made 2010 the first crisis of the third cycle in modern Greek history to become a full scale external financing emergency inside the Euro Area with strong implications for sovereignty, adjustment and the shape of the rescue[417]. By the late 2000s, Greece had already accumulated the key vulnerabilities that the sources identify as the classic preconditions of external default: persistent current account deficits, a large public debt stock, declining domestic savings and growing dependence on foreign creditors[418]. Reinhart and Trebesch state that Greece was in a current-account deficit 93% of the time between 1946 and 2014 while Alogoskoufis argues that after the 1974 regime change the fiscal system gradually shifted from stabilization to redistribution through borrowing, pushing the economy away from the exceptional equilibrium of 1950-1973. The 2000s therefore did not create the problem; they intensified a preexisting imbalance by combining low real interest rates, Eurozone membership and easy refinancing with a weak domestic savings base[419].

Jason Manolopoulos gives a detailed idea of the numerical scale of indebtedness as sovereign bond issuance in private markets often exceeded 20% of debt to GDP ratio annually between 1995 and 2007 and that after joining the Eurozone Greece more than doubled external indebtedness from 2001 to 2010[420]. Reinhart and Trebesch also notes that the share of Greek sovereign bonds held by domestic holders fell from above 70% in the late 1990s to about 30% on the eve of the default, meaning that debt that looked domestic in legal form was increasingly external in creditor composition[421]. Such a change mattered as scholars insist that creditor residence and not just legal denomination determines the severity of an external debt crisis.

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[417] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 314–317, 320–326

[418] Michael Waibel, *Sovereign Defaults before International Courts and Tribunals* (Cambridge: Cambridge University Press, 2011): 15-16

[419] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," 320–323, 325–326; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," 40–41.

[420] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 114-115

[421] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), pp. 321–323.

Nicholas G. Pirounakis, Manopoulos, Alogoskoufis among others gives the deeper macro-fiscal background of this shift, he describes the 1950-1973 period as one in which Greece tackled the twin deficits with fiscal balance near zero, current account deficits manageable at about 1.7% of GDP, investment high at about 23.5% of GDP and real GDP per capita growing at about 6.1% annually[422]. After 1974 however, fiscal destabilization, disinflation and Euro-zone euphoria were followed by a widening current account deficit, declining competitiveness while the crisis of 2010 was preceded by a sustained rise in public spending and by a deterioration in the economy's ability to finance itself domestically. In this framework, the 2010 crisis was the point at which long-run weaknesses in the fiscal and external accounts finally became unsustainable[423].

The political background is also vital to this understanding as Manolopoulos emphasizes that the early months of 2010 was marked by denial, delay and disputes within the Eurozone over the legality and desirability of aid while the Greek government itself tried to preserve access to market finance even as spreads were surging and refinancing was becoming impossible[424]. Reintegration into European institutional frameworks had not removed the Greek State's vulnerability; it had instead created an illusion that low rates and common currency membership could substitute for deep adjustment. That illusion was exposed when the fiscal and trading divergence between core and periphery widened rather than narrowing during the early 2000s. This is reflected in the debt structure of the crisis as the May 2010 rescue as described by Manolopoulos consisted first of a proposed 30 Billion EUR bilateral package announced in April followed by a 60 Billion EUR stabilization mechanism plus a 440 Billion EUR special purpose vehicle and IMF participation with the full rescue architecture eventually becoming a much larger 720 Billion EUR "shock and awe" package[425]. Reinhart and Trebesch compresses this into the more general point that after 2010 Greece again shifted from private to official creditors with Eurozone rescue loans replacing private bonds much as official loans had replaced private lending in earlier crises. The key historical constant was that the debt did not disappear; instead

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[422] George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," *GreeSE Paper* No. 184 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 11–12; Nicholas G. Pirounakis, *The Greek Economy: Past, Present and Future*, relevant chapter on post-war growth and stabilization.

[423] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 29–30, 40–41; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 315–317, 320–323, 325–326; Nicholas G. Pirounakis, *The Greek Economy: Past, Present and Future*, chapters on EMU accession and competitiveness.

[424] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 233–235.

[425] Ibid, 230-233

its holder merely changed[426].

The three year run up to the default was shaped by a rapid deterioration in market access and confidence much before the public rescue announcements. Monolopoulos records that by March 2010 Prime Minister Papanderou was already asking for a loan instrument to make spread retreat, by early April Greek-German spreads had jumped to 456 basis points and one year credit default swaps had breached 650 basis points[427]. By 27th April, Standard and Poor's had cut Greek debt to "BB+" status, effectively meaning junk status and almost 9 Billion EUR in repayments being due within 3 weeks. These are the mechanics of a sudden stop in the making: higher yields, market closure and the sudden shortening of refinancing horizons[428].

Alogoskoufis's account supplies the economic mechanism behind that market pressure as he argues that Greece entered the 2000s with low real interest rates but also with deteriorating competitiveness and widening current account deficits, so that the fall in borrowing costs after Euro-zone entry encouraged spending and investment without correcting the underlying savings gap[429]. The result was that the debt burden rose even in the years of apparent prosperity and the 2010 crisis emerged when an international shock made the existing refinancing model impossible to sustain. Reinhart and Trebesch similarly stress that the vulnerability of external debt is not simply its size but its foreign currency and foreign creditor character which makes rollover fragile when markets lose confidence[430].

Monolopoulos emphasizes that EU-decision making was slow, legally contested and politically divided with Germany pushing for IMF involvement and others resisting any admission that a Euro-zone state needed external rescue which showcased that the pre-default pressure was as institutional as it was financial. On 25th March, 2010 the EU declared a stabilization mechanism built on Article 122.2 with strong conditionality and the claim that assistance would be temporary and market restoring but the announcement itself added to uncertainty because it

[426] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 323–324.
[427] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 228–230, 233–234.
[428] Ibid, 229-234
[429] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 34–38, 40–41.
[430] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 34–38, 40–41; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015), 310–317, 320–323.

implied that an emergency had already occurred while denying that assistance had been requested or given. The result was a market reaction that confirmed the opposite of the intended message which was that spreads briefly narrowed and then widened again[431].

The immediate rupture came in May, 2010 when the rescue architecture shifted from signalling to actual official support. Manolopoulos notes that on 9th May the Euro-zone agreed to a 60 Billion EUR bailout from the EU and an additional 440 Billion EUR Vehicle while the IMF was expected to match a large share of the package through its facilities. He also records that the Eurozone finally made a 14.5 Billion EUR loan to Greece on 18th May, 2010, one day before the deadline, allowing immediate repayment to proceed. Reinhart and Trebesch place this in the longer chronology of Greek debt crises by treating the 2010 episode as a new external default cycle even if its formal legal presentation differed from earlier defaults[432]. They explain that after 2010 Greece lost access to private bond markets and turned to the public sector, with Eurozone rescue loans almost entirely substituting for private holdings. Their broader comparison shows that this followed a historical pattern in which foreign governments step in to repay private creditors but only after demanding adjustment and imposing political conditions. So the rupture was not simply market closure; it was the reorganization of creditor power[433].

The debt structure of the rescue therefore made that reorganization visible as Manolopoulos emphasizes the contradiction between the claim that Greece was being helped and the fact that the package added roughly 14 Billion EUR in interest costs on top of existing obligations. He also notes that the IMF itself warned that risks to the program were high, adjustment needs were unprecedented and a shock could weigh on the economy and banking system even if the fiscal program stayed on track. That warning is analytically important because it shows that the rescue was designed to postpone rupture and not to eliminate overhang[434].

The three year aftermath turned the crisis into a deep institutional and macroeconomic adjustment as Alogoskoufis states that the debt crisis of 2010 was followed by official lending

[431] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 232–235.
[432] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 233–235; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 323–324.
[433] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 323–325.
[434] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 236–240.

and three successive adjustment programs supervised by the IMF, the european commission and the European Central Bank and that these programs contributed to a great depression roughly lasting from 2010 to 2016. He further argues that the adjustment aimed to correct external and fiscal imbalances through nominal and real wage reductions, fiscal retrenchment and improved competitiveness but at the cost of a dramatic fall in output and investment[435].

Manolopoulos also provides that contemporaneous political texture of that adjustment as the bailout was accompanied by public unrest, strikes, bankruns, parliamentary austerity votes and an increasingly unstable political conversation about Europe itself. The State's response was not simply technocratic correction but was also an attempt to maintain Euro membership and investor confidence while imposing harsh cuts on a politically exhausted society. The broader European response also created a new creditor hierarchy as the ECB began purchasing Greek and other sovereign bonds and the rescue system increasingly involved the exposure of other Eurozone countries to Greek debt[436].

The Ottoman legacies in this episode should be treated as structural analogy rather than direct institutional continuity. Even then, the sources allow four clear lines of comparison, the first is the institutional presence of Greece's broken taxation system and abusive fiscal mediation which characterized Ottoman and post-Ottoman State formation even into the 2010 default as a State unable to mobilize domestic revenue cleanly and therefore reliant on external finance. Reinhart and Trebesch stress that Greece had chronically low domestic savings and persistent dependence on foreign funds while Alogoskoufis argues that post-1974 fiscal expansion was not matched by a durable tax base or productive adjustment[437].

The role of local primates had a modern parallel in the persistence of politically mediated resource allocation. Manolopoulos describes how tax reform and administrative reform remained resisted by entrenched groups while the State remained unable to impose uniform discipline on privileged sectors, professionals and parts of the public sector. That resembles the older pattern

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[435] George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 30–34, 40–41.

[436] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 240–246, 234–235; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 323–324.

[437] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 310–317; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 29–30, 40–41.

in which local intermediaries mediated extraction and weakened central State capacity. The key point is not identity of institution but continuity of mediation and fragmentation[438].

Clientelist politics and patrimonial administrative practices are explicitly present in Manolopoulos's account of the post-2010 reform agenda. He argues that the Greek State had to confront waste, corruption, immunity and special treatment for political elites, local capitalists and ordinary offenders if it was to build a stronger tax base and restore fairness. Alogoskoufis similarly links post-1974 fiscal instability to redistribution through public employment, transfer of payments and the political costs of delayed reform. These features echo the patrimonial logic of Ottoman era intermediary politics in which State resources were distributed through personal and group ties rather than impersonal rules[439].

External dependence clearly dominates domestic capacity building in the 2010 episode as Reinhart and Trebesch repeatedly emphasize that Greece's crisis was fundamentally external and not merely public debt and that the rescue shifted debt from private to official hands while preserving dependence and political interference. They also note that the State remained trapped in a cycle of external borrowing, conditional adjustment and delayed debt relief. This is the closest modern analogue to the older dependence on external authority as the State's room for autonomous policy is reduced when finance rather than taxation or domestic accumulation becomes the main source of survival[440].

The overall picture communicates a crisis whose modern European form still reproduces older Greek historical patterns. The 2010 default was driven by the return of twin deficits, eurozone soft constraints, foreign creditor dependence and a rescue architecture that substituted official for private financing without eliminating debt overhang. In that perspective, the episode belongs to a longer Greek economic history in which external dependence repeatedly expands borrowing capacity which then turns into a constraint on sovereignty and growth.

[438] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 114–118.
[439] Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011), 114–118; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," *GreeSE Paper* No. 189 (London: Hellenic Observatory, London School of Economics and Political Science, 2023), 29–30, 40–41.
[440] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 310–317, 323–326.

Conclusion

Cross-case synthesis on the four Ottoman mechanisms

The fruition of this institutional analysis rests on consolidating the recurring institutional legacies across the five default episodes and reads them through a comparative fiscal history lens rather than as five disconnected stories. It compares how each mechanism operated as a direct driver in some episodes and as an enabling condition in others while using the historical fiscal data and narrative evidence in the supplied sources to weight the comparisons.

The four default episodes can be seen as a wider institutional sequence in which early Ottoman fiscal structures, 19th century State formation, interwar instability and Euro-zone era crisis all reproduced the same underlying weaknesses in different institutional forms. The analytical logic here is comparative weighing of different mechanisms that repeatedly appear across episodes, shape fiscal capacity directly and recur in the same sources with quantitative markers, such as debt to GDP ratios, revenue shares, borrowing shares, spending biases and repayment burdens are treated as structurally more important than mechanisms that are visible only in one period or only as secondary accelerants. Such an approach addresses the case accumulation critique by synthesizing the defaults into one causal architecture where external dependence, fiscal extraction and political mediation reinforce one another rather than merely coexisting[441].

The first mechanism of abusive tax farming and a broken taxation system is the most continuous fiscal problem across the evolution of Greek State formation linking Ottoman era extraction to the later inability of the Greek State to build a broad reliable tax base. In the revolutionary and early State period, tax farming and collection inherited from Ottoman practices generated legalized exactions, insecurity and weak compliance while the State's own revenues remained too fragile to finance war and administration without borrowing[442]. This institutional path-dependency was exposed in 1826 and 1843 because the new State lacked a broad, reliable

[441] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–308, 321–325; George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," GreeSE Paper No. 184 (2023), 3–8, 16–28.
[442] Apostolos E. Vakalopoulos, *The Greek Nation, 1453–1669: The Cultural and Economic Background of Modern Greek Society* (New Brunswick, NJ: Rutgers University Press, 1976), 497–503; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 72–83; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," GreeSE Paper No. 189 (2023), 10–12.

domestic revenue base and had to rely on external borrowing for financing its military endeavours and then on emergency adjustment to survive debt service. In the 1843 fiscal crisis as seen earlier was not a matter of overspending but of a State whose revenue structure had not matured enough to service its external loans[443]. By the 1890s Prime Minister Trikoupis had modernized the tax structure substantially, abolishing the tithe as a "feudal relic" and raising indirect taxes with indirect taxation rising from 53.9% of total tax revenues in 1871 to over 74.3% in 1883 and from 4.8% to 8.7% of GDP yet this reform still did not create a sufficiently elastic revenue system capable enough to withstand export collapse and debt rollover stress. In 1932, fiscal fragility again surfaced through the State's dependence on customs, excises and external payments while the Great Depression reduced remittances from over 10% of GDP in 1930 to 4.4% in 1932 and strained debt servicing capacity[444].

In 2010 the broken taxation problem reappeared in a more advanced form, not as tax farming but as chronic weak collection, narrow compliance and an overreliance on taxes that could not offset external borrowing costs, showing that the mechanism persisted as an institutional habit even when the formal system had changed. The persistent trend is thus a State that repeatedly substitutes indirect and externally enforced revenue for a deeply embedded, equitable tax order while the period specific deviation is that by the late 19th century the system is no longer Ottoman tax farming in name even though it still reproduces unequal and fragile extraction[445].

Powerful local primates and communal tax mediation were not marginal features but core fiscal intermediaries in the transition from Imperial rule to independent nationhood and their importance changes across the episodes from direct political force to background social persistence. In the Ottoman and early Greek settings, local primates and kodjabashis mediated between population and authority which gave them leverage over extraction and made them indispensable in a society where central extraction remained thin. The 1821-1827 war economy depended on voluntary contributions, compulsory lending and elite mobilization as no

443 John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 31–33, 41–44, 49–52; George Alogoskoufis, "The Twin Deficits, Monetary Instability and Debt Crises in the History of Modern Greece," GreeSE Paper No. 189 (London: Hellenic Observatory, 2023), 10–12.

444 Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939," esp. discussion of Trikoupis-era tax reforms and indirect taxation; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 317–323.

445 Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–308, 321–325; George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," GreeSE Paper No. 184 (2023), 16–28; Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939."

centralized fiscal apparatus existed strong enough to replace those local brokers. In the 1833-1843 period, the new monarchy had to govern through regions connected to the local primates of Ottoman times and the political parties themselves were built around those networks, meaning that fiscal and political authority remained socially mediated rather than bureaucratically impersonal[446]. That pattern mattered less as a direct driver in 1893 than in the earlier defaults but it persisted as a structure of local influence that shaped how taxation, military mobilization and territorial incorporation were negotiated. The annexation of Thessaly, Macedonia, Epirus and Western Thrace in the late 19th and early 20th centuries created new tensions between absentee landlords, informal peasant claims and the State's fiscal ambitions especially where fertile land and uneven property rights made extraction politically sensitive. By 2010, the old communal broker had transformed into a more modernized local and sectoral intermediary class but the functional logic remained similar: mediation between State and society still filtered with incidence of taxes, public jobs and distributive gains through local and associational networks. The key distinction across time is that local primates were a direct fiscal and institutional force in the early 19th century while in later episodes their legacy survived as an enabling condition for fragmented representation and weak universal compliance[447].

Clientelist politics and patrimonial administrative practices emerge as one of the most durable mechanisms in the entire sequence because they repeatedly convert political competition into fiscal weakness. Scholars make it clear that the Greek government used public appointments to secure support, while short cabinet terms and patronage networks prevented the creation of an autonomous fiscal administration with stable competence. This mattered in 1843 because constitutional change improved oversight on paper but not the clientelist logic of office distribution and it mattered again in the second constitutional monarchy when representation expanded while direct taxes declined as political actors catered to small proprietors who could more easily avoid taxation through home production[448]. The fiscal dataset shows that direct taxes

[446] Apostolos E. Vakalopoulos, *The Greek Nation, 1453–1669: The Cultural and Economic Background of Modern Greek Society* (New Brunswick, NJ: Rutgers University Press, 1976), 497–503; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 63–70; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 281–286; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 76–83.
[447] L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 665–670; William W. McGrew, *Land and Revolution in Modern Greece, 1800–1881* (Kent, OH: Kent State University Press, 1985), 151–166; Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939"; Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–308, 321–325.
[448] George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," GreeSE Paper No. 184 (2023), 22–24; Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939"; L. S. Stavrianos, *The Balkans Since*

fell as a share of revenue from the early decades through the later 19th century while tariffs, indirect taxes and monopolies compensated only partially; that pattern fits a polity in which clientelism shifted burden away from politically influential groups and onto groups much more amenable to taxation. In 1893, Clientelism and patrimonialism did not create the crisis alone but they made the State's response to external borrowing less disciplined because money was channeled into public works, military expansion and political reward structures rather than durable tax capacity[449]. In 1932, the interwar regime still displayed repeated coups, cabinet instability and a politicized State even though the fiscal system was stronger and revenues were higher, the result was that fiscal consolidation coexisted with political fragility rather than overcoming it. In 2010, patrimonial administration is described much more explicitly with maladministration functioning as modern equivalents of old patronage and these behaviors helped explain why external assistance could not substitute for institutional discipline. The long run pattern is that clientelism is not just corruption at the margin; it is a structural allocation mechanism that repeatedly converts public finance into a political resource, weakening tax legitimacy and encouraging debt financed redistribution[450].

External financial dependence over domestic capacity building is the mechanism that ties the whole sequence together because each default episode intensified the preference for foreign funding over internal fiscal reform. In the first two defaults, the state was effectively born inside external dependency: the independence loans were issued at very high discounts, only a small part reached the revolutionary authorities and Greece quickly defaulted which led to long exclusion from capital markets and then to a second reliance on guaranteed borrowing in the 1830s. The 1833 loan was not a substitute for fiscal capacity but a shortcut around it and the same logic reappeared in the settlement arrangements of the 1850s and the 1860s when foreign

1453 (New York: Rinehart & Company, 1958), 665–670; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 49–52.

[449] Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939"; Christos Chrysanthakopoulos, Franciscos Koutentakis, and Athanasios Tagkalakis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939"; George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," GreeSE Paper No. 184 (2023), 21–24; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944); Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–325.

[450] Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939"; Christos Chrysanthakopoulos, Franciscos Koutentakis, and Athanasios Tagkalakis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939"; George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," GreeSE Paper No. 184 (2023), 21–28; Jason Manolopoulos, *Greece's "Odious" Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community* (London: Anthem Press, 2011); Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–325

powers imposed direct supervision, secured revenues and eventually an annual annuity[451]. In 1893, after a decade of heavy foreign borrowing, Greece's external debt had multiplied roughly sevenfold and annual debt obligations exceeded 50% of public revenues, making default the product of both international market tightening and an unsustainable financing model. The IFC after 1898 normalized debt service and took direct control over selected revenue streams which improved fiscal balance but also confirmed that the State's external credibility was being rebuilt through supervision rather than domestic capacity building. In 1932, the same dependence on external finance reappeared in a changed world economy: The Great Depression reduced export earnings, remittances and foreign exchange and once international lending dried up Greece again moved into default and adjustment. In 2010, the pattern was even clearer because the crisis was fundamentally an external debt crisis: heavy foreign financing, conditional bailout programmes and political interference from abroad reproduced the same logic that earlier creditors had applied in the 19th century. The key difference across periods is that external dependence was directly causal in 1826, 1843, 1893, 1932 and 2010 whereas in the intermediate periods it acted more as a disciplining framework that still discouraged serious domestic capacity building[452].

These interaction effects matter as these mechanisms did not operate separately and instead they strengthened each other in a cumulative fiscal trap. Weak tax farming and limited direct tax capacity made the State dependent on foreign loans, foreign loans reduced pressure to build domestic capacity and patronage politics used the room created by borrowing to reward supporters instead of consolidating administration. At the same time, local primates and communal intermediaries made compliance selective, which reinforced clientelism and preserved a socially fragmented State-Society relationship[453]. When military mobilization arose, revenue pressure increased but the sources show that the response often took the form of more borrowing and more politically guided spending, not a durable break with earlier institutions. This is why the fiscal data matters, spending and revenue moved with wars and crises but the composition of revenue remained biased away from stable direct taxation and debt service

[451] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–313, 321–325; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944), 12–24, 29–33, 57–61, 72–91.

[452] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 314–325; Michael Waibel, "Echoes of History: The International Financial Commission in Greece," 10–11; John Alexander Levandis, *The Greek Foreign Debt and the Great Powers, 1821–1898* (New York: Columbia University Press, 1944); *Economic History of Greece – Interwar Economy Archive*.

[453] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* (Fall 2015): 307–308, 321–325; George Alogoskoufis, "The State and the Economy of Modern Greece: Key Drivers from 1821 to the Present," GreeSE Paper No. 184 (2023), 21–28; L. S. Stavrianos, *The Balkans Since 1453* (New York: Rinehart & Company, 1958), 665–670.

shocks repeatedly amplified the fragility of the system. The case accumulation critique is therefore to understood to be answered by showing the same institutional bundle that keeps reappearing in altered form, first as Ottoman tax mediation, then as 19th century patronage and then as interwar political instability and finally as Euro-zone era clientelism and external support dependence[454].

The final conclusion to be drawn is the working of path dependence as the same weaknesses kept reappearing because each crisis was resolved in a way that stabilized the short run while leaving the institutional core intact. The early defaults externalised adjustment to foreign creditors, the 19th century settlements reinforced supervision, IFC period normalized external control over revenues and the modern crisis repeated the same dependence on external financing and outside conditionality. Meanwhile, domestic political coalitions continued to privilege distributive access over tax capacity, so the revenue system remained vulnerable to elite bargaining, social segmentation and weak accountability. In that sense, the story of Greek debt cycles is not a series of separate failures but one long institutional story in which fiscal weakness, local mediation, patrimonial politics and external dependence repeatedly reassembled the conditions for the crisis.

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[454] Christos Chrysanthakopoulos, Franciscos Koutentakis, and Athanasios Tagkalakis, "Fiscal Cyclicality, War and Bankruptcies in Greece, 1833–1939"; Franciscos Koutentakis, "The Making of a Developing Fiscal State: A New Historical Dataset and a Graphical Network Analysis for Greece, 1833–1939."

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Appendices

A) Chronologies

A.1 Long Chronology of Greek State and Fiscal Crises: Timeline from late Ottoman reforms, Greek independence milestones, defaults (1826, 1843, 1893, 1932, 2010), major wars, regime changes (monarchy, republic, dictatorship, populist governance), EU accession and euro adoption.

A.2 Cycle-specific chronologies:

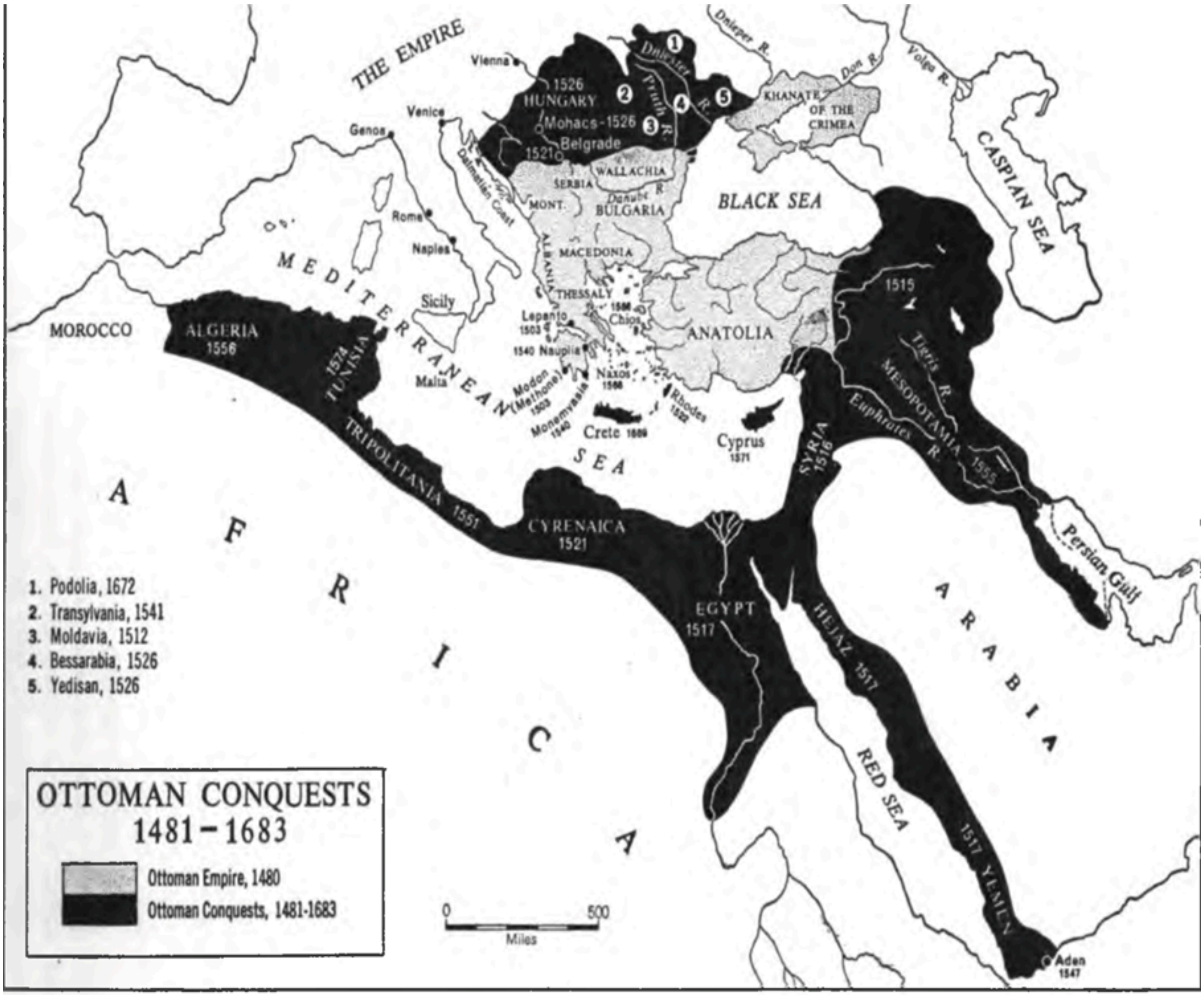
Cycle I (1821 to 1898): Year by year list of key political, fiscal and monetary events (loans of independence, 1833 guaranteed loan, defaults, reforms like the Court of auditors, defense driven spending spikes)

Cycle II (1899 to 1949): IFC 1898, Balkan Wars, WW1 and National Schism, Asia Minor Catastrophe, 1932 default, Metaxas regime, occupation and civil war.

Cycle III (1950 to 2010): Reconstruction, 1950s to 60s “miracle”, junta, 1974 transition, 1980s fiscal expansion, EU and EMU milestones, pre-2010 build up.

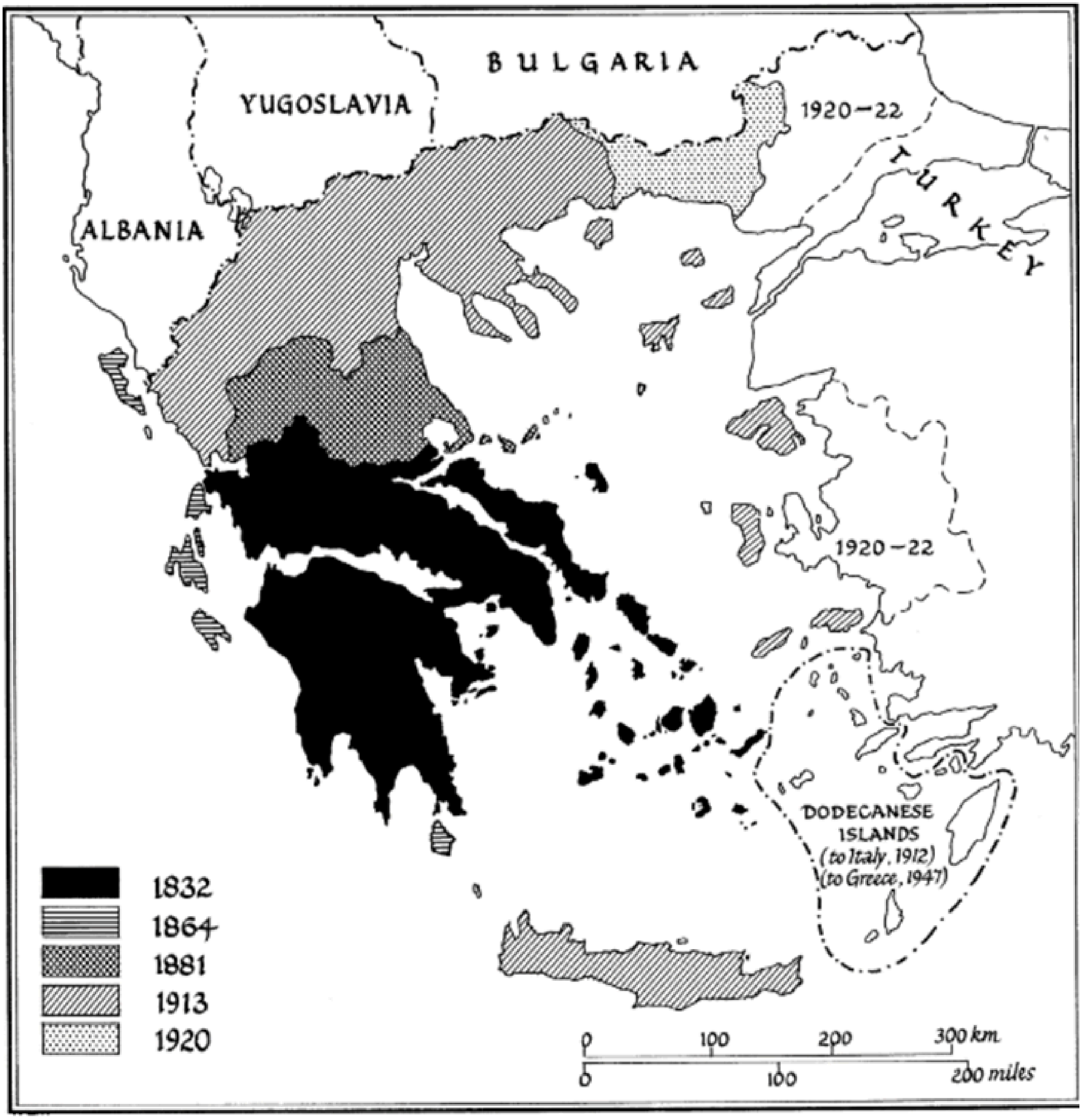
B)Maps

Map 1: The Ottoman Transformation Period (1481 to 1683)[455]



455 L. S. Stavrianos, The Balkans Since 1453 (New York: Rinehart, 1958), pp- 89.

Map 2: The expansion of the Greek State (1832 to 1947)[456]



456 Ibid,662

C) Dramatis Personae

C.1 Ottoman and Late-imperial actors:

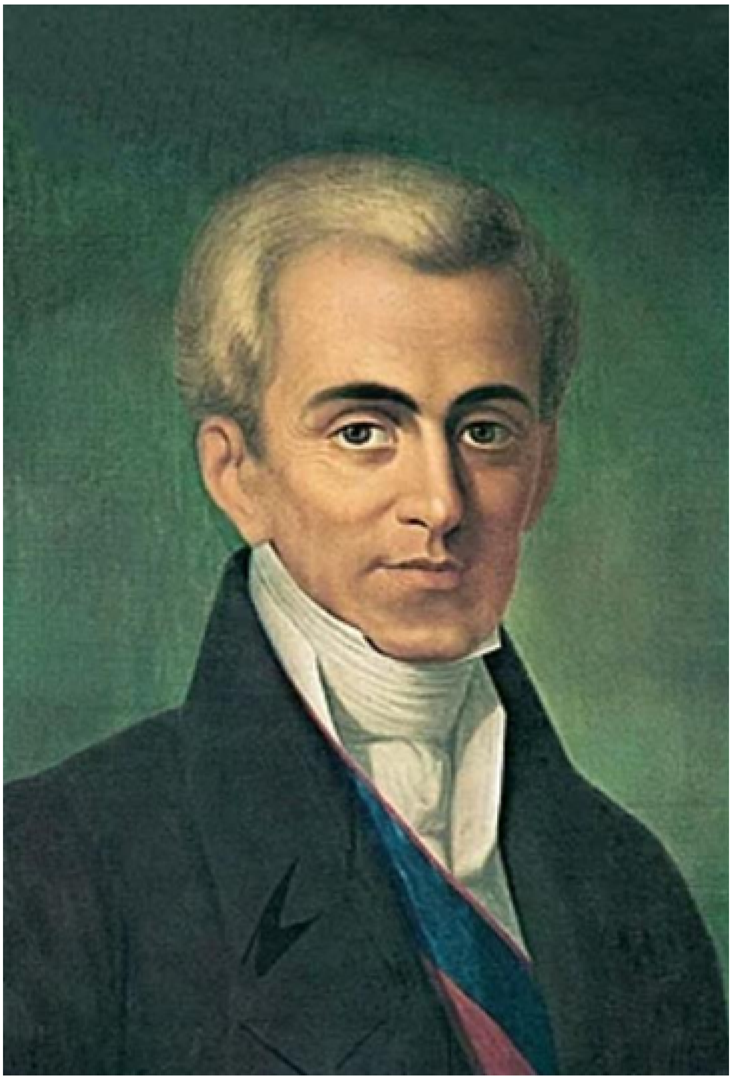
Sultan Mahmud II, Ruled the Ottoman Empire during the Greek War of Independence[457]

[457] https://upload.wikimedia.org/wikipedia/commons/d/d8/Mahmud_II.jpg

Muhammad Ali Pasha, Governor of Egypt and Led the Ottoman Charge against the Greeks in the war of independence[458]

458 https://upload.wikimedia.org/wikipedia/commons/thumb/2/2d/ModernEgypt%2C_Muhammad_Ali_by_Auguste_Couder%2C_BAP_17996.jpg/960px-ModernEgypt%2C_Muhammad_Ali_by_Auguste_Couder%2C_BAP_17996.jpg

C.2 Greek State builders and Politicians:



Ioannis Kapodistrias (1776-1831), First Greek Head of State[459]

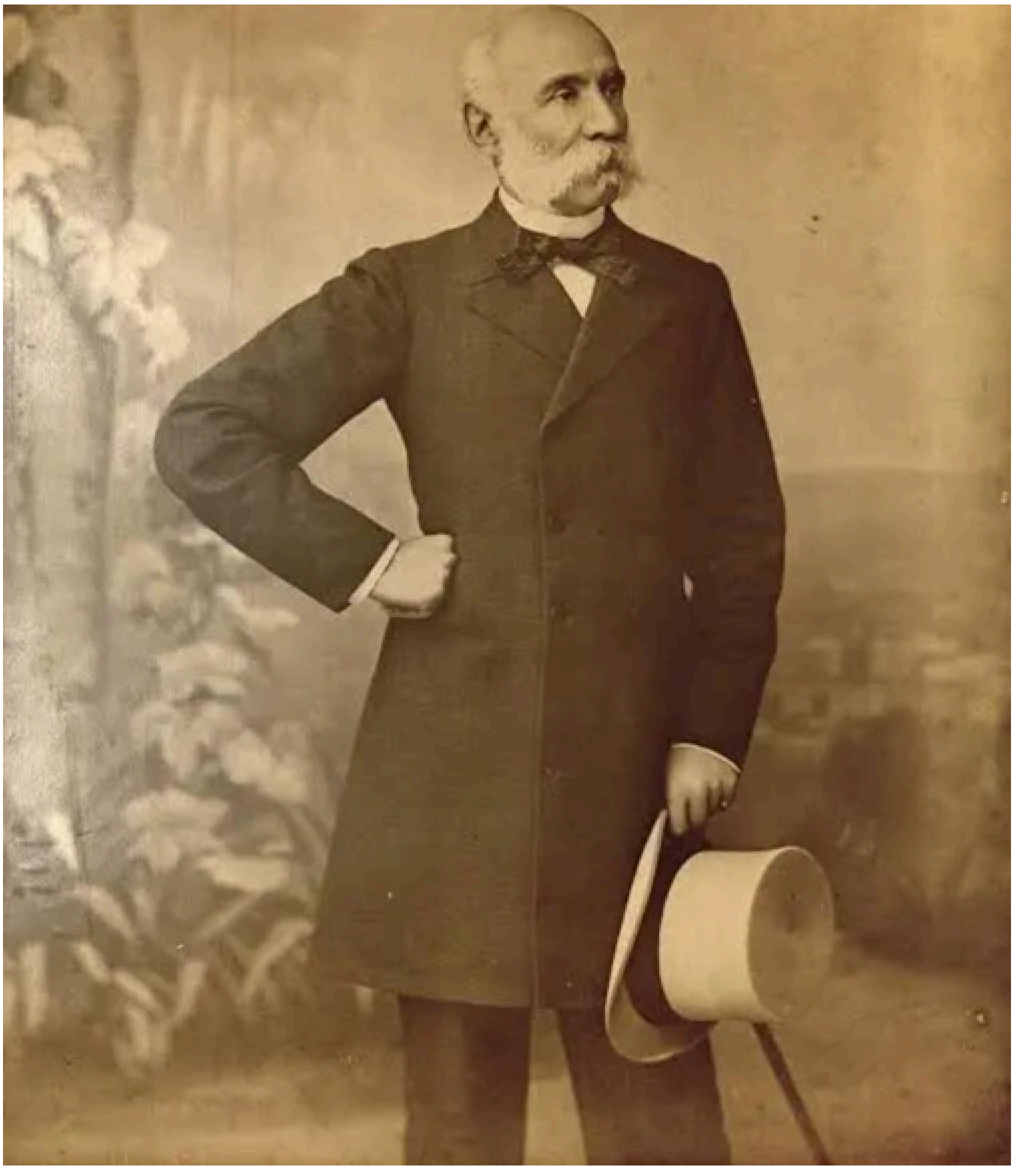
[459] https://upload.wikimedia.org/wikipedia/commons/thumb/0/00/Kapodistrias2.jpg/250px-Kapodistrias2.jpg

King Otto, First Monarch of Modern Greece from 1837-1841[460]

460 https://encrypted-tbn0.gstatic.com/images?q=tbn%3AANd9GcSxRhMwi-itJEA3WNbeA0sR1UoM8BPJWY84zA&s

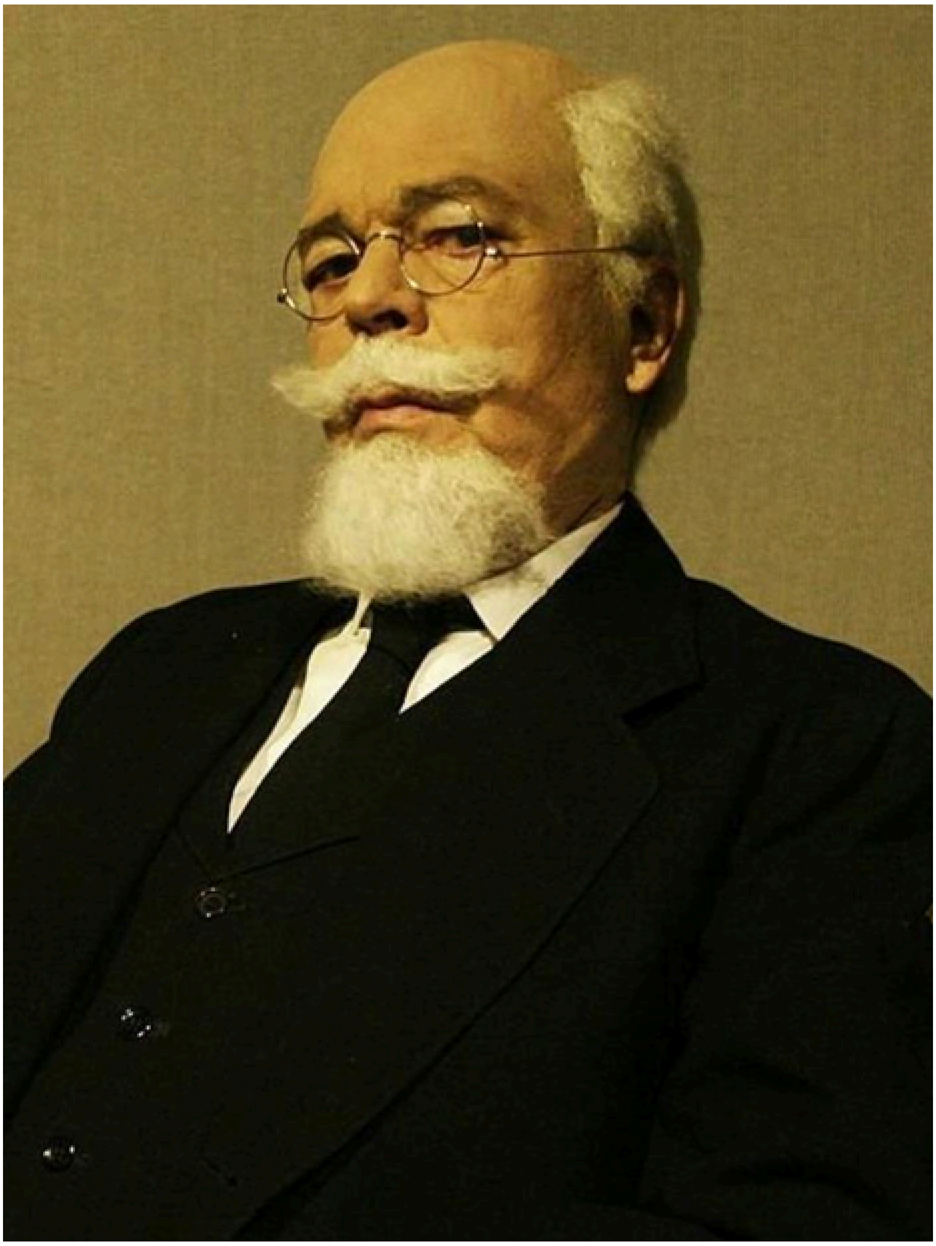
Charilaos Trikoupis, Served as Greek Prime Minister over 7 times between 1875 and 1895[461]

[461] https://upload.wikimedia.org/wikipedia/commons/4/4f/Charilaos_Trikoupis.png



Theodoros Deligiannis, Served as Greek Prime Minister Over 5 times between 1885 and 1905[462].

462 https://encrypted-tbn0.gstatic.com/images?q=tbn%3AANd9GcRn6x-_6UTm3h5_W1jzZnfu4BMcg_loFl-rOvUo9m3iHAXlaBOUZZqvFqFMJC7H1KT2fwFBR_8__q3EI_cbXjTdHgU4af18D3zZZ1LC_Q&s=10



Eleftherios Venizelos, Served as Greek Prime Minister for 12 years between 1910 and 1933[463]

463 https://upload.wikimedia.org/wikipedia/commons/thumb/9/9e/Eleftherios_Venizelos%2C_portrait_1935.jpg/960px-Eleftherios_Venizelos%2C_portrait_1935.jpg

Constantine I, Served as King of Greece from 1913 to 1917[464]

464 https://encrypted-tbn0.gstatic.com/images?q=tbn%3AANd9GcSvEqxGitqKJrDGQ4I728EHxFa40iD1cAsJcFY9yXKfSimWsubqNltCIpDUB5SAxxrEbnnUml4wuxUv7G-oJ4WqcxnnNoVOkNvEzJR7tw&s=10

Ioannis Metaxes, Dictator of Greece from 1936 to 1941[465]

[465] https://upload.wikimedia.org/wikipedia/commons/a/aa/Ioannis_Metaxas_1937_cropped.jpg

George Papandreou, Prime Minister of Greece during the 2010 Financial Crisis[466]

466 https://encrypted-tbn0.gstatic.com/images?q=tbn%3AANd9GcQH_1R2ifHaBnBpMv1O0OypF7XglE8P_rPpyTmAd9AZMDdLE457Ihz7hfzYXAG-ACWJjyTMk7qUEY3ELRifqkhCeKQdn4gDQCmPF77X&s=10

D) Glossary

D.1 Institutional and Fiscal Concepts: Institution, Organization, Path dependence, transaction costs, fiscal governance, tax farming, seigniorage, twin deficits, external constraint, fiscal military state.

D.2 Ottoman and Greek Historical Terms: Millet, Timar, Ayan, Kaza, Armatoloi, Klefts, Kodjabashis, Rum, Megali Idea, National Schism etc.

D.3 Political and Monetary regimes: Bretton Woods, Latin Monetary Union, Gold standard, drachma convertibility, EMU, “soft constraints”, clientelism, patronage.

E) Briefing reports

E.1 Ottoman Legacies in Greek fiscal governance- a primer Non-technical summary of the main mechanisms of transmission from late Ottoman fiscal/ administrative structures to modern Greek public finance.

E.2 Greece's Sovereign defaults and external control Briefing on the 5 default episodes, their causes and the forms of external oversight (eg. IFC 1898, League arrangements, EU/IMF Programmes)

E.3 Greece in European and global regimes Overview of how shifts in the international monetary and political order (Great Power Politics, League of Nations, Bretton Woods, EU/ euro) interacted with domestic institutions.

F) Documents

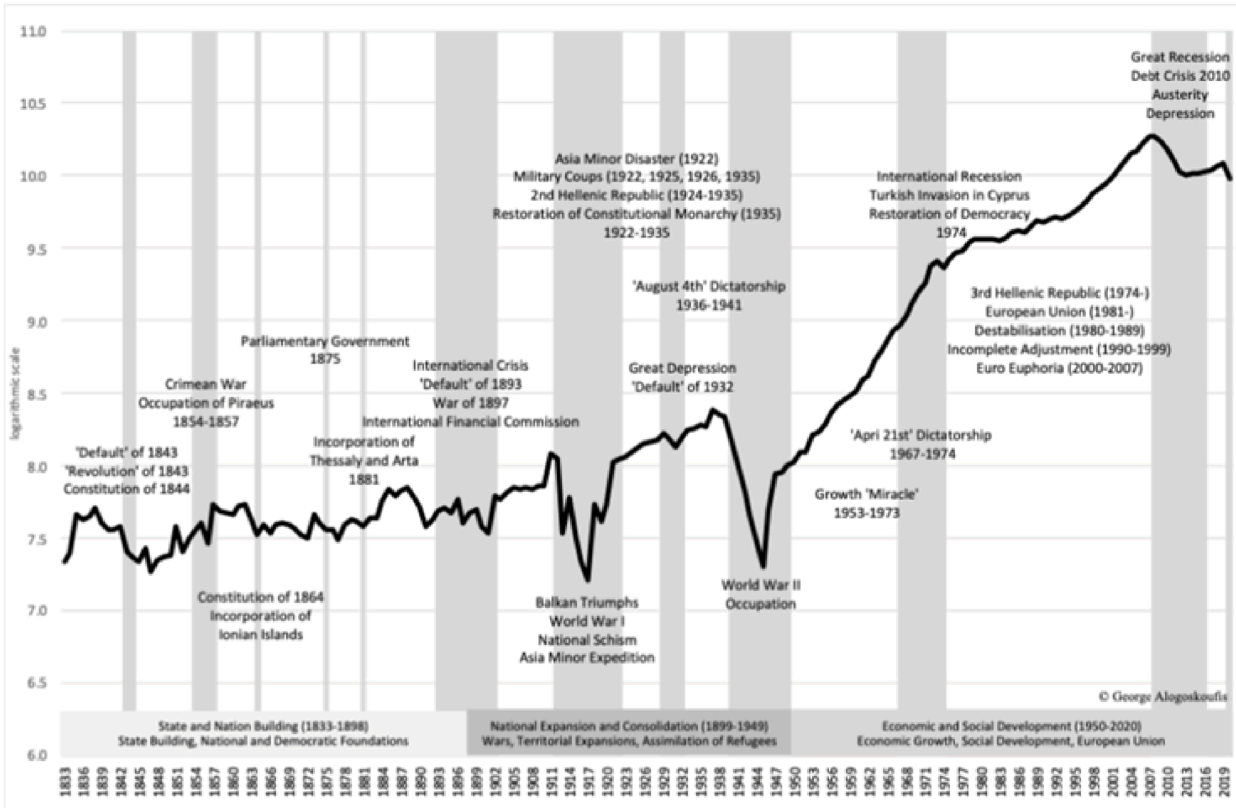
F.1 Constitutional and Legal texts: Excerpts from – early revolutionary constitutions: the 1844 to 1864 constitutions, IFC statutes: key fiscal and administrative laws (eg. On tax collection, Court of Auditors)

F.2 International agreements and protocols- Selections from treaties and protocols relevant to sovereignty, borders, loans and external control (e.g. 1832 settlement, 1898 financial arrangements, interwar loan agreements, EU/ Euro accessions).

F.3 Programmatic and analytical texts- short passages from North on institutions and behavioral assumptions and from Greek policy reports or speeches that reveal contemporary understandings of fiscal constraints and legacies, with editorial commentary linking them to the thesis's argument.

G) Charts and Tables

Historical Cycles and the Evolution of Real GDP per Capita in Modern Greece

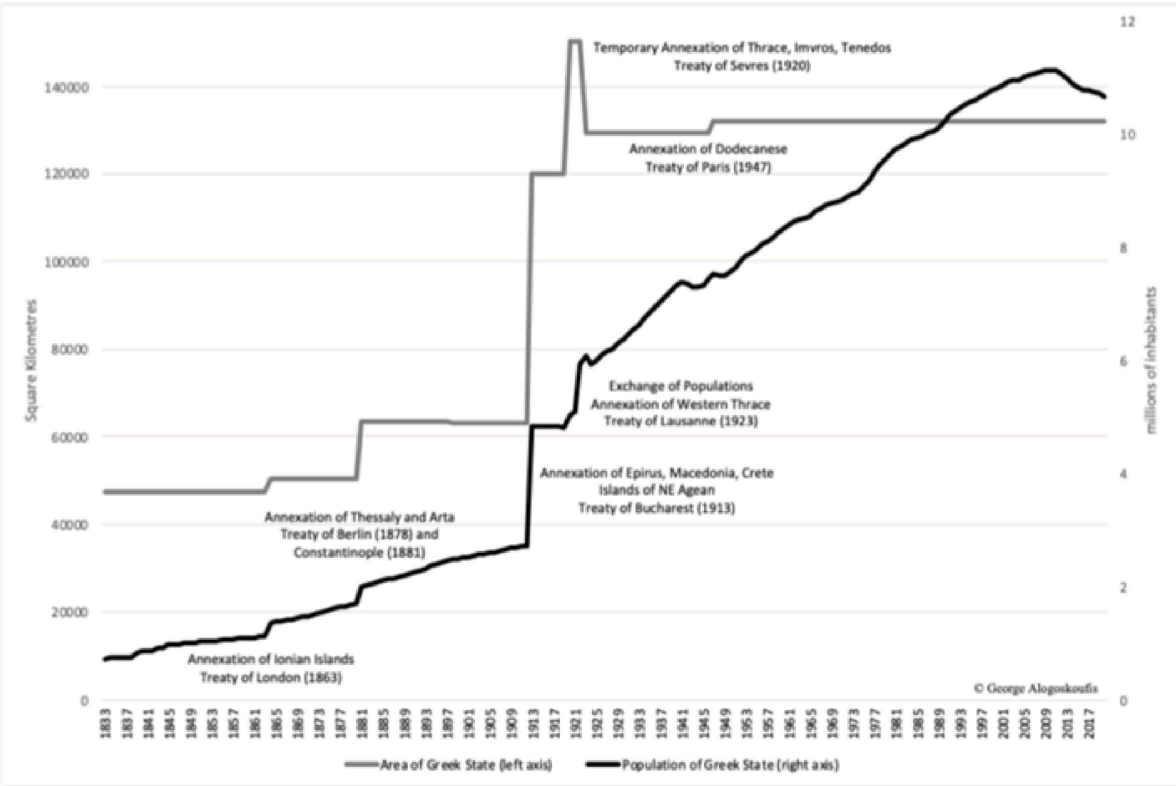


Source: Maddison Project and European Commission. Real GDP per capita is measured in PPP adjusted US dollars, at 2011 prices and is presented in a logarithmic scale.

[467]

[467] 53 George Alogoskoufis, Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign De- faults, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), 5.

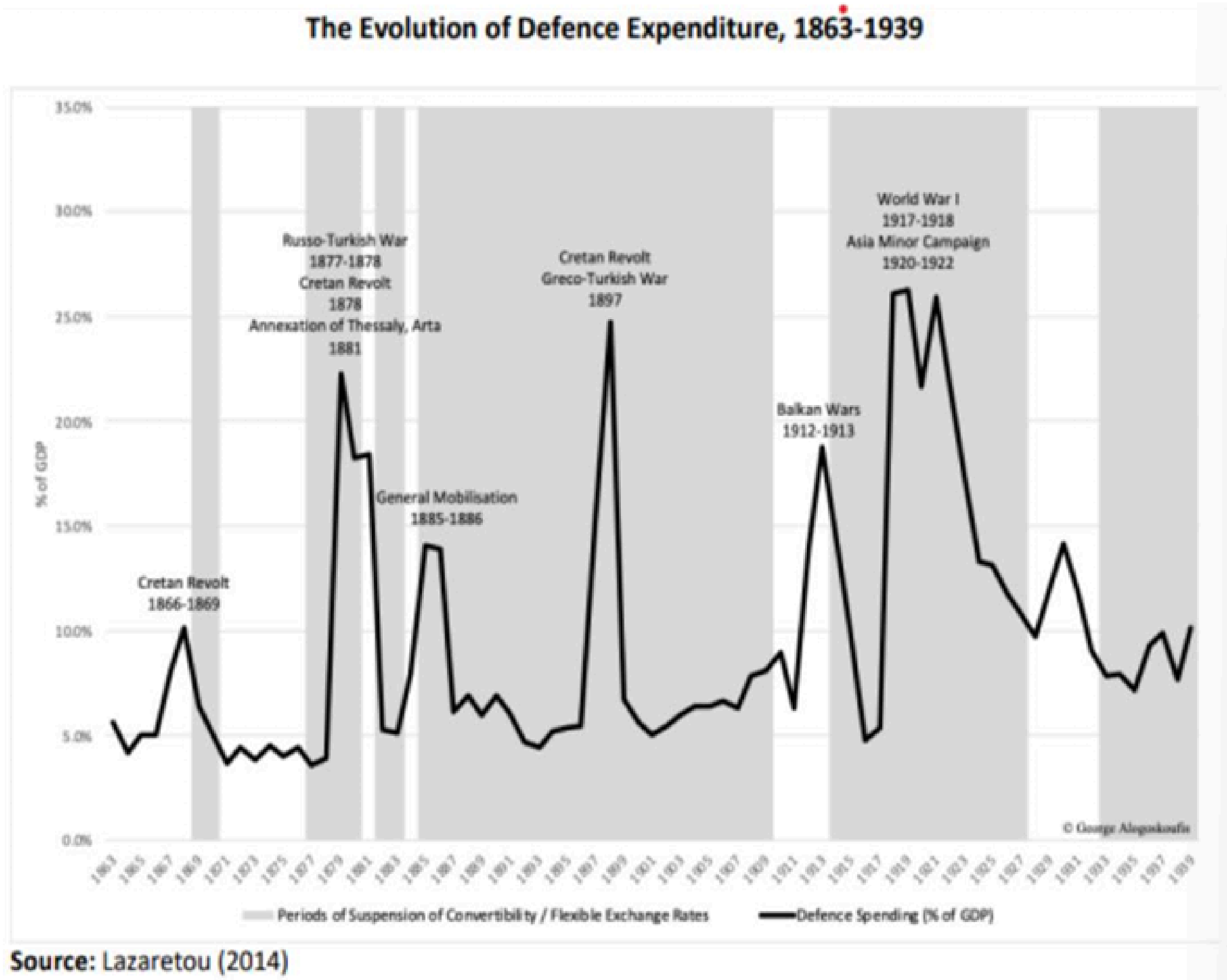
Expansions of the Area and Population of the Greek State, 1833-2020



Source: Hellenic Statistical Authority

468

468 Ibid, 6



[469]

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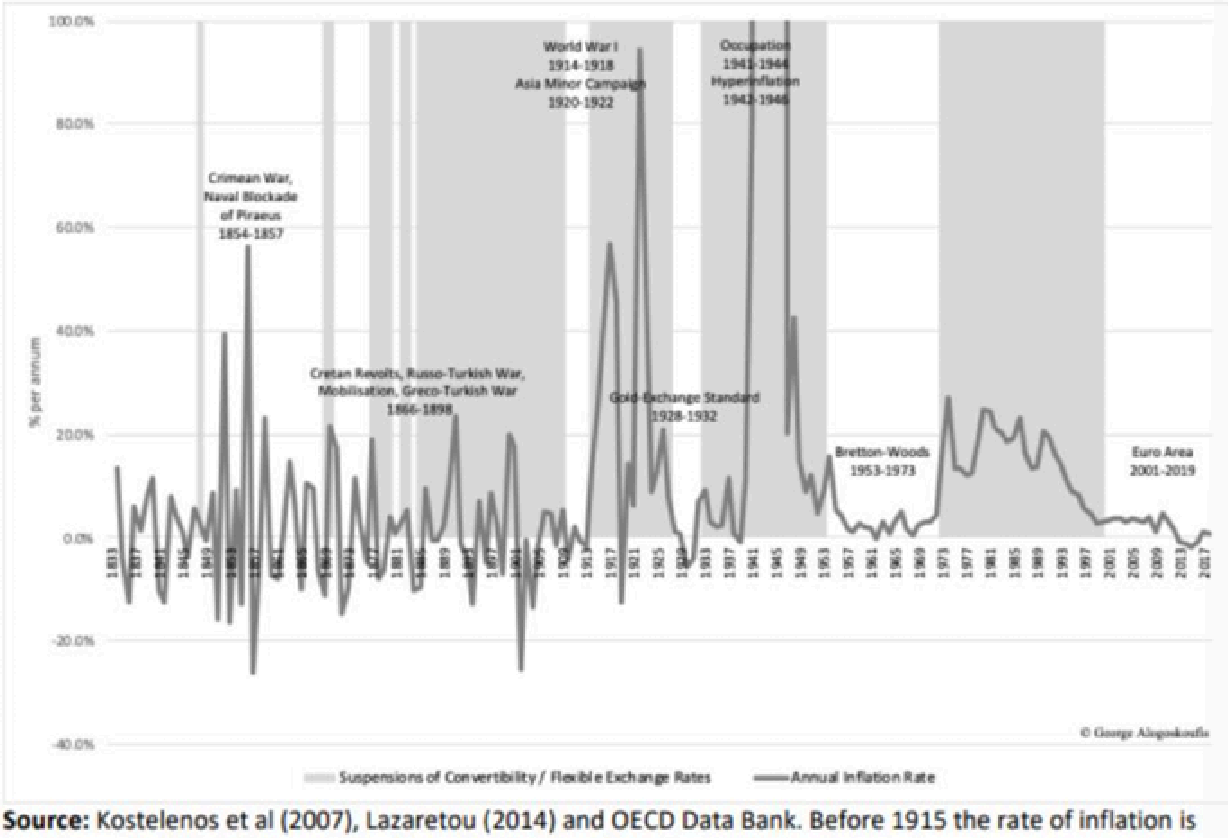
[469] 5 George Alogoskoufis, Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023), 7.

The Evolution of Inflation in Modern Greece, 1833-2020

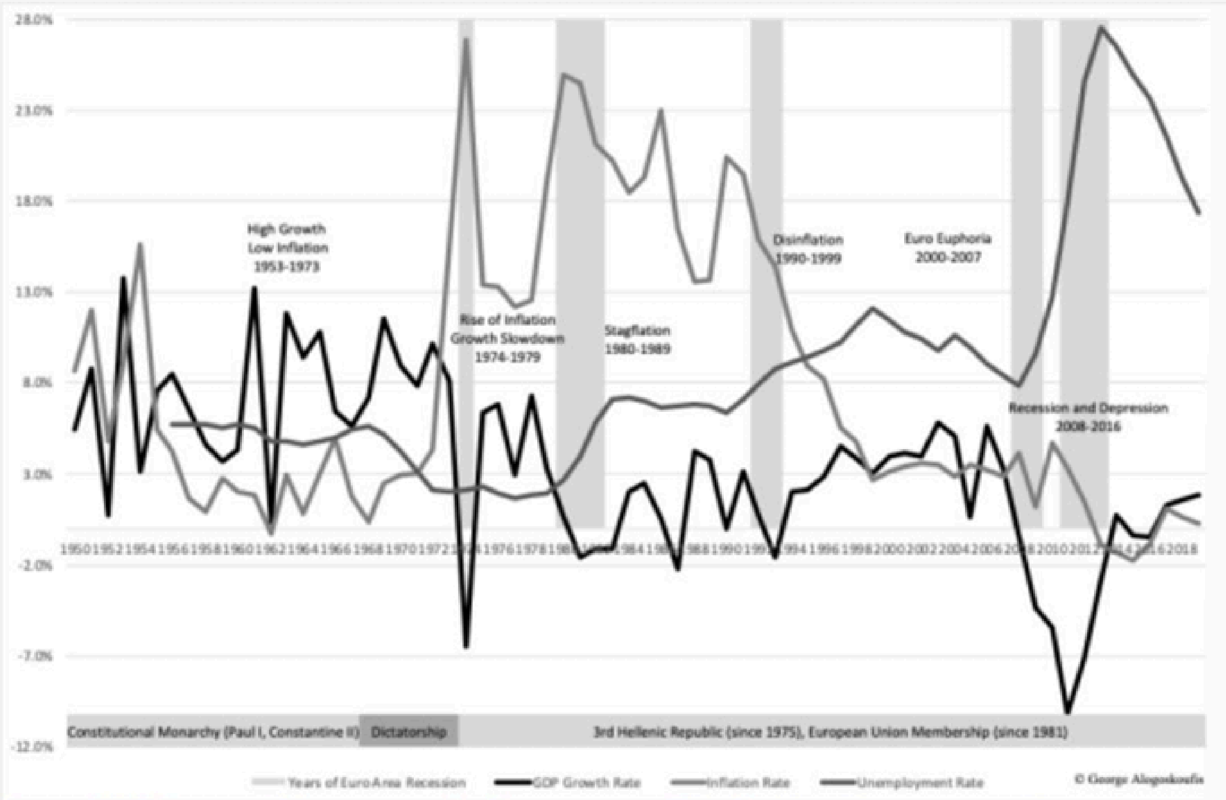


Source: Kostelenos et al (2007), Lazaretou (2014) and OECD Data Bank. Before 1915 the rate of inflation is based on the GDP deflator, while after 1915 it is based on the Consumer Price Index.

[470]

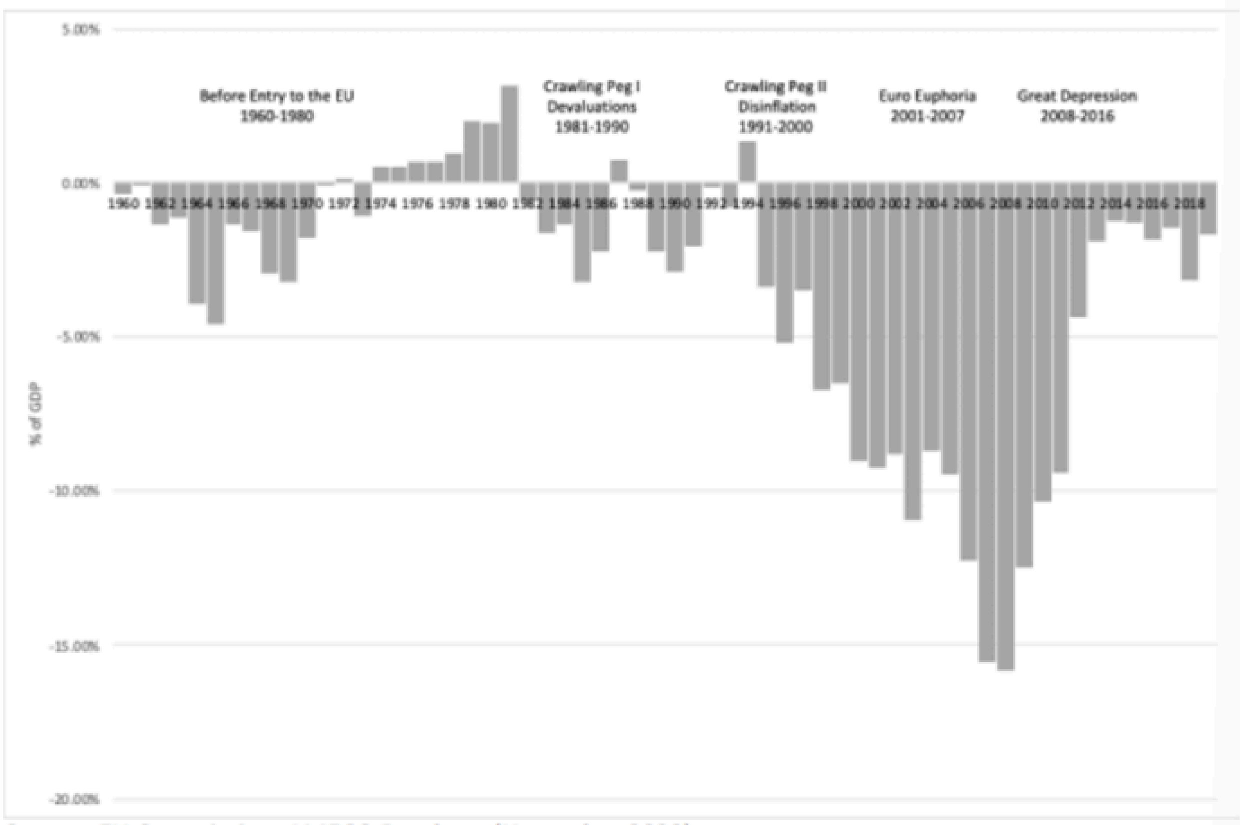
[470] George Alogoskoufis, Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023).

Growth, Inflation and Unemployment, 1950-2019



Source: OECD, Economic Database, and EU Commission, AMECO Database (November 2020).

The Evolution of the Current Account of the Balance of Payments, 1960-2019



Source: EU Commission, AMECO Database (November 2020).

[471]

[471] George Alogoskoufis, Twin Deficits, Monetary Instability, Debt Crises: The Long History of Greek Sovereign Defaults, GreeSE Paper no. 189 (London: Hellenic Observatory, London School of Economics, 2023).

Pledge of Honesty

"On my honour as a student of the Diplomatische Akademie Wien, I submit this work in good faith and pledge that I have neither given nor received unauthorized assistance on it."