Costas Simitis

THE EUROPEAN DEBT-CRISIS
THE GREEK CASE

This is a book that captures the European economic crisis with focus on the particular case of Greece. It thoroughly examines: First, the roots of the crisis in the structure of the sociopolitical system; the country's accession to the EMU and the ongoing reforms required to adapt to the new environment. The crisis is analyzed as the result of poor adaptation and divide of the country's competitiveness in the European and international environment. Second, the book examines in detail the course of the European Union's political debate. It follows the way in which the Greek crisis affected gradually more and more the Eurozone and the major role of the European Union's political decisions after the 2010. It analyses, as well, the resulting interlocking, commitments and plans of both sides, postponements and consequences, political and economic, for the entire European project. Third, the author examines the possibility of a future path for overcoming the crisis and the terms and conditions of such a happy ending.

The book is written as a chronicle of the crisis' major moments and big dilemmas, the political discourse of the European political leaders and their visions for the future.

A look inside the book

By the end of 2003, Greece's international standing had risen to a much higher level, compared to the beginning of the 1990's. The efforts it had been making to actively participate in European developments had gained international recognition. The introduction of the Euro had been accomplished with success. It was a member of the EMU. The Greek presidency of 2003 had maintained European unity over the Iraq crisis, completed the entry of new states –including Cyprus– in the Union, completed the negotiations for a new agricultural policy, as well as it completed the compilation of a European Constitution.

In March 2004 the new government took charge of a country with potential and new infrastructure, ready to maintain its high levels of growth. It took charge of a country which had 70% of the 3rd European Structural Funds, the largest growth programme ever in the history of Greece, at its disposal. The project of transcending all short comings had not, of course, been completed. There is no "end" date to a project of modernisation. One intervention must continuously be followed by others. There were still many difficult problems that remained unresolved and the government had to continue stabilising the economy, effecting structural changes and modernising the country. Greece did not have the luxury of taking a break, a pause, or taking a holiday.

Instead of this, the new government advanced "mild adjustment" as its main concern. It had no intention of dealing with the large problems that arose from social changes, other than through limited intervention of a client nature. As time went on, it became more and more obvious that the government really did believe in an "automatic pilot" in the market. It remained perplexed, motionless and indifferent before the problems. It governed in the utopian hope that problems get solved by themselves, automatically, thanks to friendly pats on the back, broad smiles and reassuring affirmations. Tax evasion, one of the country's major problems, ceased to concern public opinion. In order to limit its inevitable political decline, the government imitated Silvio Berlusconi's government in Italy, by requesting the tax authorities not to pressure citizens to pay their taxes. It also followed the example of the French President, Nicolas Sarkozy by abolishing inheritance tax. This was a negative reform that enhanced social inequality and limited Public revenue at a time of fiscal difficulties.

In 2008 recession in the Eurozone was greater than that in Greece. Greece was not drastically affected by the slump in economic activity in the European Union. Government cadres claimed that this favourable development in Greece was due to its economic policy. Nevertheless, in a peripheral country the crisis manifests itself with a degree of delay. The rise in deficits and debts could lead to risky and difficult conditions. The long term refusal to effect adjustments and reform the economy and public administration would have intensely negative consequences: "The problems for the Greek economy are only just beginning."

From 2006 onwards, many negative messages converged in the conclusion that control of the economy had been lost to a dangerous extent. Consumption was now given priority to support growth, resulting in a rise in borrowing. Choosing to ignore the basic data of the Greek economy and refusing the need to adjust its policy to developments, the government continued to increase benefits, only to be swept away finally by the current of the continual rise in deficits and debt which it had provoked itself. It is indicative that the total public sector payroll rose by 124 billion Euro, over the five year period 2004-2009, whereas over the previous eight year period 1996-2003, this figure had risen by 9.61 billion Euro only. The situation changed dramatically, especially during the two year period 2008 – 2009. The country's growth stagnated. New funds to pay off sovereign debt did not exist. From the end of 2003 to the end of 2009, debt, as a percentage of GDP, rose by 34%. The country was obliged to borrow more and more. This resulted in the interest rate climbing higher and higher, contributing to the rising trend of borrowing and debt. The country was led into a storm of excessive indebtedness.

The elections of October 2009 brought to power G. Papandreou. In his inaugural speech in the Parliament there is no comment specifying the future stabilisation policy. The new government's basic aim was to "bring the country back to the centre of international developments, both within and without the European Union". Reality proved to be completely different. Not even two years had gone by and Greece had lost her standing, her credibility, and the ability to play any role whatsoever in European and International developments. Once again, at the beginning of a critical period for the country, its leadership exhibited the ostrich syndrome. It refused to see reality and proceeded with no plan to deal with it at all.

Several days later, Eurogroup sent an ultimatum in effect to the new government to take measures in the 2010 budget to begin reducing the deficit. The President, Prime Minister of Luxembourg Jean Claude Juncker, concluded: "The party is over for Greece." But Greece had been under a regime of fiscal supervision after 2004, from which it emerged in 2007, because in 2006 it had succeeded in lowering the deficit to less than 3% of GDP. Later scrutiny by the European Union Statistical Services (Eurostat) revealed that in actual fact the deficit for 2006 had been much greater, that is 5.7%. It seems that the continual supervision of Greece by the responsible Commissioner consisted of rather an amicable cooperation with the then government. The Commissioner did not even protest when on 30th September 2009, the government sent Eurostat tables of figures where the columns for 2008 and 2009 were blank, in order to cover up the development of the deficits so as not to influence the elections to be held on 4th October. When, later, the Greek problem turned out to be one of the central concerns of the EMU, many countries pointed out that responsibility does not lie with Greece alone but also with the European Commission that did not exercise the supervision it was obliged to.

At the end of November the European Commission requested that a list containing specific measures for the reduction of the deficit be drawn up. "The measures shall be described in detail, the time schedule for implementation shall be clearly set and the fiscal benefit sought shall be determined," a clearer expression of the lack of faith in Greece's reassurances there could not be. The government appeared indecisive over what to do. It recognised the need to reduce the deficit and to check the debt, but at the same time it considered it was necessary to keep its pre-electoral promises. At the end of 2009 government expenses had reached a record high of 53.2% of GDP, [1] and revenue had fallen to the 1996 level: 37.8% of GDP. Such a difference had not been observed over the last twenty years. The usual solution, borrowing, could no longer provide a solution on its own. The inevitable recession, the ever growing cost of borrowing and debt servicing, the further rise in expenses owing to the social security system, the deficits of State owned companies, health expenses, would cause sovereign debt to shoot up to greater and greater heights: 130%, 140%, 150% and so on. The inertia was unjustifiable. At the ECOFIN Council held on December 2009, the Ministers of Finances, noted that Greece had not responded to the recommendations that had been made to her: "Greek public finances have worsened beyond what could have been expected as a result of the economic downturn".

The Greek crisis exacerbated a fact which was independent of Greece. In the European Union there was no provision for what would happen should the economic crisis in one state entail dangers for other states, or even for the whole of Europe. The Treaties determined one thing alone for the case in which a member state would find itself unable to borrow in order to meet its liabilities: Every state must manage on its own. The other states were not obliged to help it. Nor did there exist some common support mechanism for those who faced difficulties, such as the IMF. The member states of the Union, were also members of the IMF, but although recourse to it was not expressly forbidden, it was not possible in practice. It would show the European Union up as incapable of protecting itself in times of crisis, and its currency would appear vulnerable. The German Chancellor had expressly stated: "Whatever happens in one member state concerns all the others too. A common currency entails common responsibility". However, this common responsibility has not lead to the institution of regulations that would activate it, to the establishment of an extraordinary lending regime, in order to support the staggering economy of one country.

The Greek crisis was the first credibility crisis of a member state of the Union. Its members appeared unprepared and reluctant to legislate. The principle of inter-governmental co-operation imposed, after all, extensive co-operation before any measure could be taken. A quick fix was not possible. There were unprecedented questions that had to be answered before any supporting action could be formulated. Should aid be granted, would the supervision – already provided when the member state's deficit exceeded 3%- be applied, or would there be some other, much stricter procedure that would be applied? To what extent would the member retain its independence in managing its economic matters? The efforts made up till then to formulate new rules had not been effective. For quite a while there had been talk within the Union of common "economic governance", but the discussion was limited to generalities. The Greek problem, therefore, required a solution from within the existing framework. Any kind of step to provide support was not easy. It would create a dangerous precedent.

The problem was discussed at the European Council in Brussels in December 2009. The leaders of the member states were not eager to effect material changes in the way the Union functioned and was managed. They confirmed previous decisions concerning the need to apply community regulations guaranteeing economic stability and the reduction of the fiscal deficit. Regulations which were valid for Greece, which had already been submitted to the supervision process owing to its excessive deficit. They thus indirectly insisted on the principle that every state is responsible for the management of its own problems. In private discussions and statements, the cadres of the European Union

[1] During the period of preparation for the Olympic Games it fluctuated around 45% of GDP, despite increased expenses. Average expenses, from 1990 to 2007 were around 44.6% of GDP.

underlined the necessity for Greece to freeze salaries, considering that if this was not put into effect, the markets would react negatively and the country would enter a period of turbulence in trying to finance its debt. Several months later, in April 2010, the Prime Minister himself would acknowledge that Greece is in danger of going bankrupt without community support.

However, no "answer" was given. The Greek Prime Minister rejected proposals for a forceful policy. He was of the opinion that "mild measures" alone and "institutional changes" would suffice. He had no intention of implementing a tough stabilisation programme. Under such circumstances the markets grew anxious. The interest rate on Greek debt grew, Greek bonds lost their value, the CDS covering a possible Greek default were more expensive than the CDS for Egypt or Bulgaria. Greece's credit rating was downgraded by the most important credit rating agency, even though its bonds remained eligible as collateral with the ECB. For the umpteenth time the Greek and foreign Press warned that the coming weeks would be critical for the Greek economy.

Greece was caught in a downward spiral from bad to worse. Indeed, according to IMF data, debt which in 2009 stood at 127% of GDP, would reach 143% of GDP in 2010 and 166% in 2011. Financial commentators abroad described Greece's problems as "extreme". They could see only two possibilities: either the country would default, or else it would struggle to overcome them. They did not consider that default was the solution. A solution would only be possible with the support of the European Union. Consequently the country would have to surrender the reins of its economy to the European authorities.

At the beginning of 2010, Greece borrowed 8 billion Euro, through the sale of five year bonds at an interest rate of 6.22%. This was a particularly high interest rate, which constituted a fore warning that any future borrowing ability was in jeopardy. The negative impression prevailing manifested itself intensely in an unexpected way. The headline of the front page of *Le Monde* dated 6th February, was: "The financial markets are attacking the Euro threatening recovery." On the same day, *International Herald Tribune* also had on front page: "The Euro is involved in a serious political trial". "The cost of borrowing is putting pressure on Europe's weak links". The stock markets of Greece, Portugal and Spain had fallen sharply over the previous days. On the contrary, the CDS for these countries, as well as the interest rates for their borrowing, had risen significantly. From now on Greece would have to borrow at a rate of 6.7%. The danger of it defaulting has appeared on the horizon, even though it is "extremely unlikely" that the rest of the countries of the Union will let her default. The commotion provoked by the markets put pressure on the larger European countries. However, within the Union there prevailed indecisiveness and unwillingness to take measures to solve the problem.

Over the next few days, events led to intense negotiations between the countries of Europe over "how to help Greece to deal with its mountain of debt". These negotiations, however, were not solely to do with Greece, but with the overall functioning of the Union. The Treaties clearly stipulated that every member state is responsible for its liabilities alone. The creation of the Eurozone and the single currency instituted, however, such ties between its members, that the fate of one now affected the fate of the others. The position of the Euro, one of the strongest currencies in the world, could not be allowed to be put at risk through the obdurate application of a rule imposing indifference to the crisis in another country, resulting in the expansion of the commotion. It became evident that the European Commission remained indifferent to the deficits and debt that had fallen completely off the tracks, and did not intervene in time to avert developments. The Union also bears responsibility for not paying any attention to the clear difference in the levels of development between the North and the South and not adopting policies to deal with the consequences of this.

At the beginning of February 2010, the possible participation of the IMF in the solution was discussed in Brussels. The Union had had recourse to the services of the IMF in cases of members that were not part of the Eurozone, such as Lithuania (2008) and Hungary (2008), both with regard to funding being provided by it as well as –mainly- because the IMF had greater experience in monitoring countries in crisis. The ECB and the European Commission considered the intervention of the IMF in the case of Greece, a country of the Eurozone, humiliating. One Prime Minister stated that since Europeans are wondering how they will be able to improve their coordination, we should not institute economic governance that will be directed from Washington.

The prevailing view, especially in France, was that an European intervention in favour of Greece was necessary. It would check the expansion of the crisis to Portugal, Spain, or other countries with a high level of debt, in time. The solution proposed was that an "IMF plan without funding" should be imposed on Greece. Perhaps a mere statement that: "the Europeans will not let Greece fall" would suffice "in order to discourage the markets in their attempts to speculate." But more and more doubts began to be expressed. The swift rise in the rate of interest was indicative. From 6.5% at the end of March, it climbed to 7.4% on 8th April, a level that precluded any borrowing. The high cost of interest was an indication that the markets deemed loans to Greece particularly risky.

The annual rate of interest on borrowing for Greece was already much higher than the annual rate of growth of GDP. When this happens, sovereign debt does not simply feed on the annual budget deficits. It feeds itself further by continually adding new amounts of debt, owing to the interest which cannot be paid because of the weak performance of the economy cannot ensure repayment thereof. Tangible proof of this is how Greek debt developed, despite the attempts to stabilise the country in 2010. In the spring of 2010, it fluctuated around a level of 140% of GDP; a year later, despite austerity, it had reached a level of 150%. Calculations showed that by 2020 it would fluctuate at levels above 170%!

On Friday, 23rd April, the Prime Minister made a dramatic public announcement informing the citizens that he would be requesting "the activation of the support mechanism". Among other arguments, he stressed that: "We have drawn up a plan, we have taken difficult measures many times, measures that have often been painful, but we have regained our credibility". The markets were not convinced. Either, because they did not believe in the will of the European Union, or because some people decided to continue speculating. "Our ultimate destination is to free Greece from supervision and custodianship". Greece, despite what the Prime Minister maintained, was therefore accepting far harsher supervision than anything it had ever known from 1974 onwards.

The reason behind this development was not only the speculation of the international markets against Greece. The performance of the economy and the government's inability to deal with it played a decisive role. Our partners were, of course, also responsible for this development. The Union wanted to gain time. There were declarations of support, but no initiatives to provide financing. The continual hesitations of our partners over what must be done and their endless discussions, in conjunction with the procrastination and indecision of the Greek side, made the situation worse. Had a decisive intervention been made from the beginning, the extent of the disaster would have been limited. There was however, an excuse for this inertia. The Greek crisis was an unprecedented phenomenon. The Treaties did not made no provision for how to deal with it. Whatever solution was given would create a precedent for the future, it should therefore be well processed and as widely acceptable as possible. Owing to the way the Union functions, it takes time. The Greek crisis found the members of the Eurozone unprepared. All of a sudden they found themselves obliged to proceed under pressure with arrangements for something which was impossible to have happened.

But the reasons for the current sovereign debt crisis in Europe, are not confined to the fiscal deficits and the high levels of sovereign debt of certain countries. Spain which did not have deficits exceeding the limit of 3% of GDP and whose sovereign debt was just 31% of its 2006 GDP, also finds herself in crisis today. In Ireland as well, annual government deficits did not exceed 3% of GDP, and sovereign debt fluctuated at acceptable levels. Her banks, however, loaned without limit. When, owing to the crisis, they found themselves insolvent, the state intervened and took on their loans in order to save the banking system. As a result, sovereign debt increased dramatically reaching a level of 120% of GDP.

There is a much more serious reason for the explosion of sovereign debt in the countries of the Union's periphery, other than the incompetence of their governors. This reason is endogenous to the single currency area created by the EMU. It is *the difference in levels of growth between the North and the South, the reduced competitiveness of the peripheral countries and the large deficits in their balance of payments.* The South buys high quality and technologically advanced industrial products from the North. It also buys agricultural products, such as flowers and meat, which, owing to technological development are produced more cheaply in Germany or the Netherlands. On the contrary, the North buys considerably less goods from the South. As a result trading deficits arise, to the benefit of the developed countries and at the cost of the peripheral countries. Over the 2000 – 2007 period, Greece's annual trade deficit was 8.4% on average, Portugal's 9.4%, while Germany's surplus was 3.2% and that of the Netherlands 5.4%. To cover these deficits the peripheral countries were and are obliged to borrow. From the moment that, owing to the general economic crisis, borrowing began to get more and more expensive for the banks and private enterprises, states were obliged to step in and borrow themselves so they could lend in order to finance their economies in various ways, to avoid a lack of liquidity and the suffocation of the market.

The minimum interest rate on loans set by the ECB which was valid for all countries, regardless of whether their rates of inflation were above or below the average of the Eurozone, contributed to this negative development. For Germany, which, at the time of its entry into the Eurozone, had low rates of growth and inflation, the ECB interest rate was objectively high. It prolonged the recession. For Greece, on the contrary, the same ECB interest rate was objectively low, since its inflation was quite higher than that of Germany and fluctuated around the level of the interest rate. In addition, it was much lower than the interest rate prevailing before it entered the EMU. The consequence was high demand for loans, an increase in economic activity thanks to the new funds, higher rates of growth and growth in employment. The foreign banks, particularly the German and French ones, foresaw an opportunity for profit. They loaned with ease, and large sums. Under these circumstances, salaries which had been squeezed in order to achieve entry into the EMU, improved significantly. Over the 2000 – 2009 period they presented the largest increase in the Eurozone. The effects on the Greek economy's competitiveness were negative. It fell after 2005 and worsened drastically from 2007 onwards. The immediate result was the rise in imports, the fall in exports and the continual widening of the current account deficit.

This was a development that had not been foreseen by the creators of the EMU. They believed that the free movement of capital and the single market would, thanks to the lower cost of labor, ensure investment in the peripheral countries and thus the distance from the developed countries would decrease gradually. They ignored the fact that the process of convergence cannot be completed within a few years, especially since the delay in growth is not uniquely due to economic factors, but to short comings in other sectors such as administration and education where changes need time. The delay in convergence could have been dealt with through the creation of a community mechanism to finance weaker countries at a very low interest rate, which would cover the deficits of their trading accounts. But this was superfluous, according to the economic theory that inspired the formation of the Eurozone. This theory held that the correction of the imbalances in the trading accounts would come about automatically. If an acceptable limit to the trade deficit were exceeded, this would lead to banks no longer financing imports, with the consequence that companies would go out of business, demand for imported products would fall, salaries would fall, owing to the crisis and, later, this would lead to the gradual return to normality of transactions and recovery. This theoretical scheme was never born out. The banks continued to finance companies and states, even when the clear safety limits which should have been maintained were passed. "The self-adjustment of the market proved to be a chimera in the financial markets." When their money dried up, states were obliged to cover the short fall by borrowing from the international markets, resulting, in the end, in the accumulation of an enormous sovereign debt.

The Treaties do not provide for the transfer of funds from the wealthier states to the weaker ones. The rules for subsidizing states and activities are strictly determined and very specific with regard to actions that may be financed. The great divide between North and South can hardly be shrunk in this way. In the USA and in the Federal Republic of Germany the transfer of funds from the central government to the federal states whose growth is lagging, is provided. This is a solution that has been proposed for the European Union.

The existence of the single currency concealed the acute differences in economic health between states. Countries with more problems could borrow at approximately the same interest rate as those whose economy was strong. When the interest rate gradually began to differ between them, it became clear that *the banks of the strong countries had over extended loans to the weaker countries.* Inability to meet their liabilities could cause a banking crisis in the developed countries, principally in Germany and France, and cause a flurry throughout the whole of Europe. In order to avoid the losses threatening them, the banks transferred the solution of the problem to governments, and governments, in their turn, to the Union. The latter was called upon to undertake the cost of saving either the countries or the banks, something, however, that contravened its basic rules.

Apart from reduced competitiveness, the countries of the periphery of the Union are also lagging in *organisation of administration, in the efficiency of their services, in the knowledge and abilities of their employees.* The regulations of the European Union are applied, but with delays, with imperfections. This lagging behind in how institutions functioned supported the argument that Greece, and perhaps other peripheral countries as well, should not have become members of the EMU. However, the EMU is not a group of developed countries with common interests against the countries lagging behind. It is a stage of development of the Union to facilitate the economic co-operation of its members, to strengthen the common effort for growth, to achieve the gradual convergence of their economies and to make better use of the potential provided by the abolishing of frontiers and common aspirations. It is a common plan for progress aiming, in the end, at political union. It should, therefore, include both the strong with their abilities and the weaker ones with their weaknesses in its planning. It should take inequalities into account, and calculations should bear in mind that the developed countries do not only bear the burden, but also profit from significant gains, thanks to their financial services and their exports.

When the EMU was established, many observers in Great Britain and the USA deemed that the project was doomed to failure. They claimed that a *monetary union presupposes a political union,* so that there is a central authority taking the necessary decisions. Developments vindicated these predictions in part. The EMU was beneficial for all its members in the first years. The peripheral countries achieved high levels of growth, their borrowing costs fell significantly, and they began to converge with the developed countries. The crisis that broke out in 2007 showed that this progress was fragile.

When the Greek crisis arose, the European Commission and the developed countries of the Union refused to see that developments in Greece were not due solely to bad management by the government. They would not accept that this was all the consequence of the imbalances between the peripheral countries and the central nucleus. It was only at the end of 2009 that the EMU began to realise that the differences in competitiveness in the Union, the over indebtedness of the peripheral countries and the insecurity caused by the financial crisis, could lead to new and unpleasant developments. The intensive consultations between the Greek government and the representatives of the European Union, the ECB and the IMF (the troika) were completed on the evening of 1st May 2010. On the morning of 2nd May, the Greek Cabinet approved a framework of agreement. On the afternoon of the same day, the Ministers of Finances of the Eurozone convened in Brussels and ratified this framework of agreement. On 6th May, the Greek Parliament voted the draft law thereby passing the agreement into law. The "Memorandum" thus acquired its final form. On 8th May the Heads of State and Governments of the Eurozone ratified the decision taken by the Ministers of Finances. Apart from ratification of the decision to loan Greece, the extraordinary Summit Conference on the 8th of May 2010 discussed developments in the whole of the Eurozone. On the next day, Sunday 9th May, late at night, after many long hours of negotiations, the Ministers decided to institute the European Fiscal Stability Fund (EFSF).

This agreement marked a break with policy followed up till then. The Eurozone took a step in the direction of a common stand to deal with crises, despite the stipulation of the Treaties that every member bears exclusive responsibility for the fulfilment of its financial liabilities. The need to avert an extensive crisis proved stronger than the need to adhere to the Treaties.

The Memorandum reflects the dominant view among the circles of the IMF and also the European Union, on how to deal with the economic crisis in a country with excessive sovereign debt that cannot raise funds from the international banking market. The means to turn the situation around is to drastically limit the fiscal deficit in the shortest time possible, in order to stop the rise of debt. At the same time one needs to deal with the root cause of the situation which, as a rule, is due to reduced competitiveness. Competitiveness can be improved by an internal devaluation. The goal is for the country to return to the markets as soon as possible. The prerequisite for the success of this prescription is that the level of debt is sustainable. The troika deemed the level of Greek debt sustainable. An internal devaluation was used as the vehicle for stabilisation. The Memorandum sought to turn the economy into one operating according to the standards of the developed countries of the Union, "it sought a big bang" and assumed that this could be achieved within three years, that is by mid 2013.

But the government was not able to stick strictly to the instructions of the Memorandum. It tried to limit social reactions through adjustments it deemed politically and socially necessary. On the other hand, the lenders thought it was right to use a high rate of interest and repayment of the debt by 2017 as a means of pressure. They thought Greece would hasten to comply with their orders, faced as she was with the risk of having to continue to pay a 5% rate of interest, and under the pressure of a fast repayment of the loan. It was a miscalculation. Before a year was out, it was decided to reduce the rate of interest because it was too high. In December 2010 the competent Commissioner assured that "Greece would be able to return partially and gradually to the markets from May 2012 to May 2013". This self-deception did not last for long.

The Memorandum imposed restrictions on the country's autonomy. By accepting it, the government drastically reduced its ability to implement the economic policy that it deemed opportune. With the beginning of 2011, workers began to go on strikes. "Angry citizens" began insulting politicians in public. The negative impression of this development on the country augmented the recession. The rate at which economic activity was shrinking was higher than forecast. According to the original calculations, the recession would reach its height in 2010, and from 2011 onwards recession would be at a lower rate and would bottoming out in 2012. The recession reached at the end of 2012 -30% and will continue in 2013. Subsequently, debt as a percentage of GDP hit the level of 153.8%, a level that caused anxiety in the markets because it was considered to be out of control. The level of unemployment constituted the most characteristic indication of this negative development. On the basis of data from the Statistical Service which were published in January 2013, in October 2012 it had reached 27%. The failure of the Memorandum was evident.

Discussions over whether a Greek default was imminent flared up. Restructuring was the only solution, although presented to Greek public opinion as a step towards disaster. In the European Union the camps in favour and against remained practically unchanged. Economists, academics and commentators in major newspapers as well, insisted that the only way out was through restructuring. The IMF, the ECB and the European Commission remained steadily opposed to restructuring. In mid June the rating agency Standard & Poor's downgraded Greece to the lowest level on the rating scale for states, because –as it stated- it deemed that default was just about certain to occur. The interest rate on Greek borrowing reached a record high. It was 17% approximately, for 10 year bonds. The greek stock exchange continued to fall. The general index slid to the level of February 1997. The Greek government was of the view that "there is absolutely no possibility that Greek debt will be restructured".

The delay and postponements signified the indecision of the European Union. The continual investigation of various solutions without taking decisions had already aroused confusion and nervousness. The international Press accused the leaders of the European Union of "irresponsibility and mean mindedness": "For many months they have been squabbling over the formulation of a second plan of assistance for Greece, after the deficiency of the first one".

Postponing a solution to the Greek problem had already negatively affected the position of other EMU countries. The rate of interest on Italian borrowing reached its highest level in ten years. Ireland's credit rating was downgraded on 14th July. The same had happened to Portugal a week earlier. The Euro was losing value against the dollar. The value of bank shares was falling on all the stock markets. In Europe, in the expression of various newspapers, a "storm was raging with no end in sight". The cause – they pointed out – was not the Euro itself, which constituted an advantage for the Europeans, but the "stand of the politicians, who do not have the guts to deal with the problems".

Finally, in July, the Eurozone proceeded with the decision of restructuring. The decisions of 21st June brought about a significant change in the policy of the Union. Many things that had been deemed inadmissible were now acknowledged as being imperative. For the first time, the Eurozone requested the private sector, as equally responsible for developments, to participate in financing the salvation of a member state. Greek debt was deemed unsustainable, something the Eurozone had refused to acknowledge up until then, so that it would not be obliged to change its original decisions which had been wrong. Finally, the member states broadened the EFSF's capacity for action, acknowledging that the crisis was not only a Greek problem. These decisions signalled the beginning of a new period where the organs of the European Union would be exercising power more intensely. Even though neither did the EFSF turn into an IMF, nor did the European Council assume economic governance, steps were taken in the direction of closer consultations and common action.

On 2nd August stock prices tumbled throughout the world. Rates of interest on Italian and Spanish bonds began to rise. Investors turned en masse to the purchase of German bonds. The flurry was due to fears of a crisis in the USA, and its effects on the Eurozone. This was not a passing flurry. It continued and became a determining factor of developments. In order to stop the crisis spreading, the ECB originally decided to buy Irish and Portuguese bonds, to support these two countries; however, it was soon obliged to extend its bond buying to Italian and Spanish bonds, for a limited period, as it stated. The usual phenomenon that occurs in the capital markets in periods of crisis occurred. Banks refuse to lend to each other, they all deposited their money in the ECB, even though the interest rate was particularly low. The Eurozone, therefore, found itself having to specify and implement its decisions in a significantly worse international environment. The international climate affected Greece. On 12th September the rate of interest on 10 year Greek bonds reached a record high: 23.544%. The rise in interest of short term bonds was also explosive. International markets had raised the possibility of a Greek default to 98%. Banks suffered an intense shortage of liquidity, resulting in talk of having recourse to extraordinary measures, such as financing from the Financial Stability Fund. Recession belied the forecasts and was higher than what had been expected.

Germany and France were seeking to isolate the Greek crisis, so as to ward off adverse effects on other countries. What was needed was a "haircut" not of 21% but of 50% or even more, so that debt could be sustainable, at least until the ESM began functioning. A second caveat against the agreement arose from developments in the bond market. More and more hedge funds were trying to speculate on Greek bonds. They bought them at a price lower than their nominal value, usually around 50% or 60%, hoping that the haircut would not exceed 20%.

Owing to the difficult economic situation concern grew over which solution should be pursued. This was confirmed by the troika's report on the sustainability of Greek sovereign debt. The report pointed out that the Greek economy was adjusting more and more owing to the recession and not through structural reforms advancing productivity: "Greece is not in a position to achieve an extensive internal devaluation, fiscal adjustment and a privatisation programme all at the same time". Conditions favourable for a return to the markets at a logical rate of interest will probably have been satisfied in 2021. The debt to GDP ratio will peak in 2013, when debt will reach 186% of GDP. The country's borrowing needs are calculated at 252 billion till 2020 over and above what has already been granted, and after debt has been submitted to a 21% haircut.

The report's conclusion was that Greece needed extensive, long term and generous state support, over and above what the 21st July agreement provided. The claims of creditors would have to be cut by a percentage of at least 60%, if debt were to become sustainable. In addition, there would have to be a reduction in the rate of interest and additional financing by the EFSF, "in accordance with the promise made by the leaders of the Eurozone to help Greece throughout the whole time it will need to acquire the capacity to borrow from the markets again". Throughout the autumn of 2011, demonstrations, strikes, occupations of work places and public buildings, clashes between the police and demonstrators constituted virtually daily occurrences.

Public opinion noted that the Eurozone as a whole had not formulated a single mutually acceptable solution, or the means to place the flurry under control. It felt that the delaying tactics and hesitations of those responsible had allowed the crisis to spread: it was now threatening Spain and Italy, and it constituted a danger for the global economy. The former President of the European Commission, Jacques Delors observed that "the Euro is on the brink of the abyss".[i] Throughout October, the organs of the Eurozone as well as of the Union endeavoured to determine the "all encompassing strategy" which they had failed to determine in March and July at the Summit Conferences.

In a speech she gave to the German Bundestag, Chancellor A. Merkel spoke of the "greatest crisis in Europe since World War II", as well as of the existential crisis, while she expressed the fear that, "if the Euro fails, European Union will also fail". The basic problems were dealt with on 26th October at the Eurozone Summit Conference. Private Sector Involvement (PSI) was considered necessary to render Greek sovereign debt sustainable.

Greece and the interested parties were called upon to agree to a voluntary exchange of bonds, through a reduction in the nominal value of the bonds held by private investors by 50%. The bond exchange should have gone through by the beginning of 2012.

The member states agreed to finance Greece with an additional 100 billion Euro, up to 2014. This sum would include the necessary amount for the recapitalisation of Greek banks. The support for Greece was a "solution of an extraordinary and unique nature", and would not be repeated in the case of difficulties faced by other countries.

The Conference showed that the leading states of the Union did not wish to commit to any long term planning of their common economic policies. They refused to deal with the root cause of the turmoil, that is the different levels of development in the Union and the imbalances these give rise to. If they had wanted a substantial solution, they should have decided on a policy of support for the countries of the South. They should have taken decisions concerning the common fiscal policy, a coordinated approach to improve competitiveness and ways of enhancing growth. They limited themselves to the pursuit of permanent and stable fiscal discipline. For the stability of the Eurozone to be achieved something more than fiscal discipline was necessary: a steady course towards the political unification of the Eurozone.

Political games followed the return of G. Papandreou from Brussels after the Summit. He proposed a referendum that provoked intense reactions both at home and abroad. He resigned. Finally, on 10.11.2011, Mr Papademos, formerly Governor of the Bank of Greece when the country entered the EMU and vice President of the ECB for many years, was selected to be the new Prime Minister. Three parties would participate in the government. Public opinion welcomed the new government with relief.

The government was up against two serious obstacles in its efforts. The first one was our partners' lack of faith in us, since they now doubted the willingness and the sincerity of the Greeks. The second was the fatigue of citizens, their conviction that the measures would not be able to bring about any improvement but only continued deterioration, the refusal to accept new burdens, which they deemed, in fact, to be socially unjust. By the end of February, the government had succeeded in greatly improving confidence in the country. At home, however, the new measures taken, such as the reduction of the minimum wage, of pensions, wages and salaries had significantly damaged its image. The Prime Minister's popularity receded.

At the Conference of Eurozone Heads of States and Governments held in Brussels on 9th December 2011, it was decided that the member states should contract a new "Fiscal Compact". Its central aim was that there should be "in parallel with the single currency, a strong economic pillar". "It will rest on an enhanced governance". This term denoted a series of rules which would deter the partners from ignoring agreed behaviour and would enhance fiscal discipline. According to these rules budgets would be balanced or in surplus, that is "as a rule their annual structural deficit does not exceed 0.5% of nominal GDP". This principle would be incorporated into the laws of every country, on a constitutional or equivalent level. Exceeding the highest deficit limit set by the Treaty of Maastricht, which is 3% of GDP, should entail penalties. These penalties may only be suspended by a special majority of member states. Sovereign debt exceeding 60% of GDP should be reduced annually by 1/20. Arrangements for the evaluation of draft budgets and the correction of excessive deficits shall be cemented in a binding manner for all member states. All countries would be obliged to comply with the Commission's suggestions. The decision is not limited to the institution of controls. It also seeks to shape a common economic policy with regular Conferences. It states that "all major economic policy reforms [...] will be discussed and coordinated at the level of the euro area with a view to bench marking best practices".

As to immediate action, it was decided to speed up the functioning of the European Stability Mechanism (ESM), a permanent structure replacing the provisional EFSF, so that it would begin operating from July 2012. The member states shall participate in granting 200 billion Euro to the IMF so that the Fund may dispose of sufficient means to deal with crises. Finally, in order to calm the anxiety aroused by the restructuring of Greek debt, reassurance was given that in cases of debt restructuring the IMF established principles and practice shall be valid with regard to private sector involvement. The Greek case shall not be repeated.

The markets reacted positively to the decisions. The original enthusiasm, receded, however, when the American rating agencies warned "that the crisis shall continue with more or less intensity throughout 2012 and very possibly over the next few years, until there is a recovery". This pessimistic mood was reversed by the ECB when in mid December it made 489 billion available in three year loans to over 500 banks.

An anxious normality returned to Greece after the Summit Conference. The government's primary mission was to complete the preconditions required for the 130 billion Euro loan to be granted. An agreement needed to be drawn up. It concerned the conditions of the loan. It would include the as yet unclear arrangements for the new fiscal measures and structural changes needed to achieve the targets of the Midterm Programme 2012-2015. In brief, this constituted the new Memorandum.

Negotiations over these matters proved exceptionally difficult. The New Democracy and LAOS parties but also a section of the PASOK party, did not want to acknowledge how critical the situation was and accept regulations incurring a particularly high political cost. Pressure was particularly intense from the part of the troika, and their disposition to seek intermediary solutions was virtually non existent. Its representatives believed that "the country has neither the ability nor the will to carry out the broad economic changes it had promised in exchange for aid". "The deficit in credibility was as high as the fiscal deficit".
At the Summit Conference of the European Union held on 30th January 2012 the members of the Eurozone issued an announcement in which they urged Greece to finalize negotiations on the new program agreement " in the coming days. Restoration of credibility requires that all political parties irrevocably commit to the new programme". The vote to approve the new Memorandum was held on Sunday 12th February by the Greek Parliament. Discussions over the PSI were proceeding at the same time as negotiations over the new Memorandum. They had begun towards the end of 2011, and by mid January 2012, they had reached a breaking point. Negotiations in the Eurogroup on 20th February 2012 were insistent but led to a result. The agreement averted a disorderly default by Greece. Mr. Papademos spoke of a historic day, and stressed that the decisions constitute "a great step towards ensuring the Greek economy but also the future of the country".

The second Memorandum was the resounding confirmation that the first Memorandum had failed. Before the designated period of implementation was even over, its targets had proved to be impossible to achieve, and the side effects of the solutions it imposed had made the situation significantly worse. Its diagnosis had not been correct, and that is why the cure it recommended had been wrong.

The implementation of the Memorandum contributed to reducing the overall deficit by 6 percentage points of GDP: from 15.8% in 2009, to 10.8% in 2010 and 7.3% at the end of 2012. This was a significant reduction. The debt restructuring effected also greatly lightened the load of the country's debt by 105 billion approximately, and facilitated debt repayment.
The crisis and the stabilisation policy significantly increased poverty in the country. On the basis of the poverty line for 2009, poverty reached 25% of the population against 20.1%, at the end of 2010. The composition of the poor population also changed. A section of the middle classes joined the poor. Growth, as the example of Greece shows, was deferred from 2012 to the end of 2014, owing to the restrictive policy. When it comes about it will be anaemic and unstable. The future prospects for Greece shall be, according to the troika's and the IMF's reports, a continual restrictive policy up to 2020, so that a sovereign debt level

of 117% of GDP is reached in 2020. However, the sustainability of the debt will remain doubtful. A swifter return to a period of high rates of growth can be achieved by multiplying investments, but due to the lack of confidence investments are not probable.

In the beginning of April 2012, the impression prevailed in both Greece and the Union that things would develop smoothly from now on. Instead of this, at the beginning of May, the main feature which was growing was recession. According to forecasts, it would exceed 5%, instead of the 4.5% the Bank of Greece hoped for. The country found itself in greater and greater isolation. Greek businesses could only proceed with transactions abroad if they disposed of liquid cash, which, however, the banks could not lend them. The effect on unemployment was tremendous: it was now reaching 22%.The Prime Minister was warning the party leaders that the economy was in danger of collapsing from one moment to the next, and in fact through the spark of an unexpected event. The consequence would be the country's exit from the Eurozone. In the course of his brief term of office, Mr. Papademos succeeded in stemming the free fall the country.

It was not only the situation in Greece that caused anxiety. The original estimate that thanks to the stability measures announced, conditions of orderly developments would be established in Italy and Spain, were not borne out. In mid April, the Italian government announced that the recession was worse than had been expected and that, subsequent to this, the budget would not be balanced in 2013, but two years later, in violation of what had been agreed with the European Commission.

In Spain, the fourth largest bank in the country, Bankia, requested state assistance of approximately 23 billion Euro in May, to avoid bankruptcy. Economic analysts calculated that approximately 150 – 200 billion Euro would be needed to recapitalise the Spanish banks, so they would comply with international solvency rules. Assistance of such a magnitude, however, would require the Spanish state to impose tax increases and spending cuts which would make the recession deeper "Bank bailouts on this scale may well bring the Spanish state to its knees". "Spain's austerity-recession feedback loop is similar to the process that fed economic contraction in Greece". Anxiety over future developments in Spain rose vertically in the European Union. The rate of interest the markets demanded to lend to Spain exceeded 6.5%, thereby rendering Spanish debt unsustainable. According to the international Press, "in a season of nightmare projections for Europe, this one could be the scariest.

The political crisis that broke out in The Netherlands in April was a surprise. It was caused by a deficit of 4.7% of GDP in 2011, as well as from disagreements over how to deal with it. Finally, Cyprus also presented problems. Its banks had bought Greek bonds and incurred losses from the restructuring of Greek debt. An unexpected fall in economic activity throughout the whole of the Eurozone noted in April, contributed to the negative image of the performance of the European economy. According to forecasts, in the best case scenario, growth would be zero. The consequences which were already becoming visible was a rise in unemployment, which reached its highest point since the introduction of the Euro, the volatility of the financial markets, the flight of investors and the fall in the value of the Euro. At the same time social protests and political clashes were intensifying.

Anxiety over the effects of the crisis also prevailed in the international community. The problems in Europe were the main concern in conferences of international organisations such as the IMF and the World Bank. The view prevailed that the Union reacted to developments with great delay, insisting on a policy that undermined global growth. In the USA and in China as well, they feared that the European crisis would drag their economies into recession: in the USA because the banking system was affected by the difficulties of the European banks; in China, because their exports had begun to fall. The USA had repeatedly urged the Union to relax the austerity policy it was implementing.

Disagreements over the policy being imposed were also being expressed within the Union.

The results of the 6th May elections surprised everyone both in Greece and Europe. What had been a comfortable government majority for PASOK and New Democracy crumbled, since they barely won 33% of the vote. The parties that denounced the Memorandum and demanded an immediate change in policy increased their share of the vote spectacularly to approximately 34%. The entry of the extreme right wing party Golden Dawn into Parliament was an indication typical of this fury.

As soon as it became known that there would be a new round of elections, the possibility of Greek exit from the Eurozone and the conditions under which it would be effected became a major discussion point throughout the world. Under these circumstances the Summit Conference of 29th June acted as a catalyst.

The decisions of the Conference set three new basic rules for financing member states facing difficulties: a) The ESM "could, following a regular decision have the possibility to recapitalize banks directly". Provided that an "effective single supervisory mechanism" for the banks of the Eurozone involving the ECB is created b) Financing assistance to Spain shall be effected by the EFSF and, when the ESM is established, it will assume execution of the programme. c) The existing ESFS/ESM instruments will be used "in a flexible and efficient manner in order to stabilize markets for member states,

The decisions were considered a step towards a banking union with stricter supervision of banks. At the same time it was estimated that the Eurozone would acquire swifter reactions and more effective intervention in the markets, to reduce interest rates and facilitate borrowing by member states. Market reaction was positive. The value of the Euro rose, the price of shares rose on the stock exchanges, and rates of interest on borrowing for Italy, Spain and Ireland, fell. A climate of optimism over future developments prevailed. The Summit Conference of 29th June clearly showed the change in correlations in the Union.

In the 17th June elections in Greece reversal of the previous state of affairs was only partially achieved. There remained many different parties, and none prevailed. It became obvious, however, that the majority of voters wanted the economic and political crisis to be dealt with within the context of the European Union, with Greece remaining in the Eurozone. A coalition government of three pro-European parties was formed. The government turned its attention to the basic matters still pending and to improving the climate for renegotiations. The Eurozone's hostile stand receded. An "all encompassing" solution for the Greek problem was not possible and shall remain so for a long time.

The fundamental principle for the solution to the Greek problem is the understanding that efforts of the Greek government must be aware of the European context, and sensitive to "the European perspective". Through such an understanding European cooperation can be furthered. And genuine efforts to redress the imbalances between North and South in order to achieve broader planning for growth throughout the European Union can be made. The second basic axis is the formulation of a plan for the medium and long-term handling of the crisis, so that the capacity for comprehensive and focused negotiations. The third goal must be dealing with the multiple causes of Greek society's failings. Certain measures under way – privatisations, deregulation of markets – are necessary, but they are not enough. The widespread role of the state and the nexus of cooperation between special interests, parties and the state machinery need to be dealt with systematically.

Adjustment, through austerity and recession, has hurt those at the bottom of the economic strata the worst. The "European perspective" and the "democratic belief", however, need to be supported by citizens. Support will only be forthcoming if they have the sense that the state is really interested in their fate. The context for this whole effort must be a plan clarifying the basic aims, the means to achieve them, and time scales possible, so that future populist reactions can be overcome.

At the inception of the financial crisis in 2007, there was a widespread aversion to major institutional, or treaty based reform, across the European Union. Reform fatigue prevailed in the Union contrary to the activity of the last decade of the 20th Century. There were various reasons for this. The accession of the ten new members in 2004, multiplied the difficulties in deliberations, and the obstacles to taking decisions in the Union. These new member states argued against not being once again subjugated to a foreign centralised power.

From 2001 onwards the composition of the European Council began to change. The social democrat majority was gradually replaced. Governments were elected in Germany, France and Italy that no longer had the same interest in European affairs. Their focus shifted towards internal concerns. The European Commission underwent a shift in composition reflective of this trend, with conservative appointments becoming increasingly dominant. The line "no more changes, there have been enough" increasingly expressed both member states ideology, as well the Community ethos. There was no vision.

Greece triggered the crisis in the Eurozone, but she was not the cause of it. The cause is inherent in the fact that the Eurozone is a full monetary union, but an imperfect economic and fiscal union of member states with different structural features; the mature economies of the European North differ significantly, in terms of both level of development and business cycles, to the less mature economies of the South. The current turmoil is a sovereign debt crisis only to a small degree, and this is mainly the case of Greece and Portugal. The causes are far more complex and varied than mere irresponsible government spending: the frenzy of construction activity and the resulting artificial price rises in Spain and Ireland; over-borrowing by companies in Italy; Germany's refusal to increase domestic demand so as to facilitate exports from the South; and the fall in competitiveness of the peripheral countries, all had major ramifications. A comprehensive understanding of the causes must also include the crisis in the private sector of the economy, the banking systems of a number of member states, as well as a crisis of adequate oversight by the fiscal and monetary authorities in the Eurozone. The European Union has still not designed a complete model of political and economic governance, a new way of dealing with imbalances between the developed central nucleus, and its less developed periphery. It has not formulated procedures for the systematic promotion of economic growth, which would distribute the benefits to all members in as balanced a way as is possible.

The absence of a policy that would render the European agenda convincing, is not just a delay in shaping the European edifice; it is the cause of the perpetuated anxiety and the instability of markets. The less competitive economies of the South incur external deficits. In order to maintain the standard of living and employment they have already acquired, the private and public sector are obliged to resort to excessive spending. To acquire the necessary funds they borrow from the international markets. The markets cease lending as soon as they ascertain that they risk not being paid back the loans they grant. The consequence is a crisis in state finances, as was the case in Greece and Portugal, or a crisis in the banking sector as in Spain or Cyprus.

The Euro is not only the result of economic aspirations, nor was it imposed by the markets to subjugate people and their desires. It was a politically necessary step to expand common activity, to abolish constraints and boundaries, to create economic stability and growth. It arose as a goal, long before discussions over the purpose and the form the monetary union would take, began.

The nexus that has been created form the common course, up to now, constitutes an enormous investment in ideas, capital and labor, which not one of the members of the EMU is in a position to ignore and to sacrifice without incurring an enormous cost for itself.

The results of a break up or dissolution are impossible to calculate. They would be exceptionally negative, even for those who may consider that the EMU does not fully guarantee their economic interests. All countries would be greatly downgraded, with regard to their political influence and their economic potential. "It would be a giant blow to the wider European project, which has ensured peace and democracy to a continent with a tragic history." For this reason the members of the EMU are bound to co operate, to predict and deal in a timely manner with developments which could put the Euro and its coherence at risk. Solidarity is obligatory.

Dealing with the economic problems of the Union is, for this reason, integrally linked to the political trajectory and future form the project will take. The efforts to control the crisis, the common fiscal rules, and the common context for drawing up budgets must be understood and implemented in conjunction with the broader pursuit of a common course. The commitments every member assumed through its participation, as well as the rights it acquired, are irrevocably tied to the aims of solidarity, and the pursuit of the Union's common interest. The European Union is neither a club where only the select have a say, nor an amalgamation of states governed by orders from an authority with super powers. It is a collective project espousing liberty, growth and adjustment to the new international conditions.

More specifically the chapters of the book give answers to the following questions:

PART ONE: HOW WE ARRIVED AT THE FIRST MEMORANDUM?

Was Greece Ready For The Euro? What are the reasons for the excessive level of Greek sovereign debt and the excessive budget deficit? Which are the main causes of the crisis? Is there any obligation for solidarity among European countries? The Greek parties between criminal indifference and opportunistic optimism? Being in denial-Ineffective Solutions and the bitter truth?

The first Memorandum: A medicine with dangerous side effects?

PART TWO: THE MEMORANDUM'S FIRST YEAR OF IMPLEMENTATION

Does the crisis spread to the Union? Implementing the Memorandum: An Obstacle Race? "An all encompassing plan" to solve the crisis in the Eurozone? "An all encompassing plan" to solve the crisis in Greece? A year of the Memorandum: Seeking a new solution?

PART THREE: DEBT RESTRUCTURING AND POWER GAMES

Debt restructuring? A Dead End? A new solution? Political games with unpredictable consequences?

PART FOUR: COALITION GOVERNMENT, PSI, SECOND MEMORANDUM

A flicker of hope? Conflicts at the highest European level? The new agreement with the Eurozone (Memorandum II), the PSI? An evaluation of the Memoranda? Austerity and growth: Implementing the decisions of 21st February 2012? The crisis peaks?

PART FIVE: ELECTIONS MAY-JUNE 2012

Elections of 6th May: Euro or drachma? Cracks in the Euro? The Union at a dead end: Change of course on 29th June? The elections of 17th June: A new beginning? Provisional Solutions. October-December 2012? What with Cyprus?

PART SIX: THE FUTURE OF GREECE AND THE EUROPEAN UNION

The causes of the crisis are only economic? A new European policy is necessary? Economic governance?

The book concludes with a detailed Table of conferences and decisions of the Organs of the European Union, an Index and Abbreviations.

CONSTANTINOS SIMITIS

He was born in Piraeus in June 23, 1936.

Profession : Lawyer , University Professor

Studies: He studied Law in Marburg University of Germany (1959) and Economics in London School of Economics.

He speaks English, French and German

Office Address: 35, Akademias Str., 106 72 Athens.

7/7.

He was elected as a member of the Greek Parliament representing PASOK in Piraeus district in the elections of 1985,1989,1993,2004 and 2007. In January 1996 he was elected as Prime Minister by the Parliamentary Group of PASOK to succeed Premier Andreas Papandreou. Following Papandreous' death in June 1996, he was elected PASOK's party leader. He resigned from office in 2004 after eight years of premiership in order to support the renewal of the party.

Before becoming Prime Minister he served in a number of ministerial posts: Minister of Agriculture (1981-1985), Minister of National Economy (1985-1987), Minister of Education (1989-1990), Minister of Commerce (1993-1995), Minister of Industry & Technology (1993-1995).

In the late 1960's he was involved in activities against the Greek junta and he avoided arrest by fleeing abroad. He became a law professor in Germany (1971-1975) and professor of Business Law at the Panteion University, Athens (1977-1981). He was a founding member (1974) of the Panhellenic Socialist Movement (PASOK), Greece's Socialist Party. He is the author of a large number of books and articles.