

US Economic Policies in Post Civil-War Greece, 1949-1953: Stabilisation and Monetary Reform

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Introduction

By the end of the Civil War in the autumn of 1949, the primary aim of US intervention in Greece — the military defeat of the communist guerrillas — had been attained¹. Naturally enough the shift of emphasis in Greek affairs would then be on the political and economic front. In the first case, this implied the normalisation of the political process and the establishment of more permanent institutional arrangements so that political stability could be attained. In the second case, this implied speeding up economic growth and securing economic stability. In both cases, any advances were aimed at facilitating an early disengagement of the US from the framework that had been established by the Truman Doctrine and continued through the Marshall Plan. Such a framework had required not only the commitment of financial resources but also a rigid regime of direct involvement of the US Economic Missions in Greece in the actual management of the economy through monetary, fiscal and trade policies².

Both objectives, however, involved many rather unresolved issues. On the economic front, despite the return of the Greek economy by 1950 to its pre-war levels of production, the external trade deficit made imperative the continuation of aid for as long as there was no real improvement in the country's export performance or until other forms of external finance became available. Yet, at the end of 1949, there was little if any optimism for an immediate response to the deficit problem. The developmental agenda as it was conceived in the Porter Report³ of 1947, and subsequently transformed within the framework of the

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¹ Amen (1978) and Wittner (1982) develop the thesis of the primacy of the military objectives in the US intervention in Greece.

² Stathakis (1993), Thomadakis (1989).

³ Porter Report, Tentative Report of the American Economic Mission to Greece, 25

Marshall Plan into a Four-Year Industrialisation Plan, had more or less been abandoned⁴. Under these conditions the available options were limited. Basically they consisted in: the speeding up of the investment programme, which by then included primarily the power-generating plants and infrastructure for agriculture; the improvement of the government's fiscal performance; the implementation of the institutional reforms, which, for some time, had been high on the agenda of the ECA Mission in Greece, and which were expected to encourage private investment; and the stabilisation of the drachma as a result of the gradual reduction in fiscal and external deficits.

There were many unresolved issues on the political front as well. First, US policy from 1947 onwards had strongly favoured coalition governments comprised of the Right-wing party, which had a majority in parliament, and the three parties of the centre which formed a parliamentary minority. This arrangement, labelled as the "weak government" principle, had allowed the US to curtail international criticism of the Greek government's human rights record and of US involvement in the Greek Civil War. In the post-Civil War situation, such a principle made little sense. Economic growth, institutional reform and political stability needed above all else a strong and effective government.

The Porter Report had underlined the need to strengthen and actively support the liberal political forces of the centre, as an alternative to the dominant Right-wing party⁵. Such a policy was still active in late 1949. With elections approaching in the spring of 1950, the redrawing of the political map was possible. Yet while the centre appeared to have better chances of strengthening its position, it lacked coherence and leadership. Split into three parties, with even more factions within each party, it needed to be reshaped, as an eminent figure, General Plastiras, was returning into politics with a new party and a radical platform⁶. It should also be remembered that any permanent political arrangements included two other powerful political institutions; the palace and the army⁷. It would take three years, until the end of 1952, three successive elections, alterations to the electoral law and the appearance of new parties before a "strong", conservative government entered office under General Papagos, the military figure that had led the victory of the Civil War. This outcome had required a multiplicity of policy shifts and a variety of internal re-arrangements, before a new conservative majority was to be established.

The first part of this paper discusses developments during late 1949 and

April, 1947, Department of State, 868.50. Porter/4-2547.

⁴ Stathakis (1993).

⁵ *op. cit.* Porter Report, see Summary and Conclusions.

⁶ Clogg (1987).

⁷ Mouzelis (1978) works on the idea of the political structure, consisting of the parliament, the palace and the army, which produced a semi-parliamentary regime that prevailed during the 50s and the 60s.

early 1950, dealing with the immediate responses to the aforementioned problems. The analysis focuses on two major events: first the demilitarisation policy pursued by ECA/G in an attempt to improve the government's fiscal performance and release valuable economic resources for development; and second, the "Grady Letter", which was the US Ambassador's mandate to the government that was to be formed after the spring elections of 1950. In effect it brought into office a government of the centre, led by General Plastiras. In addition the "Letter" included the basic US propositions as to the economic policies and reforms that were to be immediately implemented by the new government, which in effect found their way into the government programme.

This is the background to the significant shifts that occurred in US policy in the aftermath of the Korean conflict. Four important shifts should be mentioned:

a) rearmament became the primary objective and the Marshall Plan was adjusted accordingly so as to accommodate the new priorities.

b) economic aid to Greece was reduced for the first time in late 1950, a trend that continued for the next two years.

c) the "theatre command principle"⁸, according to which the ECA Mission to Greece enjoyed great autonomy in handling policy issues, was abandoned. Instead, most of the decision-making was to be done in Washington, with ECA/G, and after 1951, MSA/G Missions having very little actual power.

d) US political support gradually shifted towards more conservative political solutions in Greece, a trend that was to become evident during the drawing up of a new constitution and the elections in 1952.

Within this context stabilisation became the predominant theme. As early as January 1950 a Committee was established in Washington which was responsible for drawing up a stabilisation programme and making recommendations on a wide range of economic policy issues. Some of these proposals furnished the "Grady Letter" and the subsequent economic programme of the Plastiras Government. Yet it was early 1951 when a Stabilisation Programme was defined drawing ideas from both the initial proposals of the previous year as well as from a Report of the IMF Committee that had visited Greece in the autumn of 1950. For the next two years, a stabilisation policy was rigidly implemented, causing enormous friction between Washington and the ECA/G. The Greek government was, at the same time, in the embarrassing position of having been elected on the basis of a political and economic platform which was completely different from the actual policies that it was forced to pursue.

The Monetary Reform of April 1953, known as the Markezinis Reform, was the final stage of the Stabilisation Programme. The drachma was devalued by half against the dollar, and it was fixed to the dollar. The Reform itself is considered as a landmark in the post-war development of the Greek economy⁹. It brought

⁸ For a discussion of the autonomy of AMAG see Amen (1978).

⁹ Candilis (1968), Freris (1986), Halikias (1978).

about the stabilisation of the drachma and initiated a prolonged period of stability and growth. Until the collapse of the Bretton Woods system the drachma kept its exchange rate fixed to the dollar and the Greek economy enjoyed an unprecedented record of monetary stability and almost uninterrupted economic growth. The success of the Reform can hardly be judged on the basis of the specific measures it introduced. It has to be evaluated in relation to the stabilisation policies pursued during the preceding two years.

In effect the Stabilisation Programme may be interpreted as a case of crude monetarism, drawing its strength from the simplicity of the economic policy itself. An oversimplified analysis of inflationary and deflationary factors of the economy became the primary and sole criterion for decisions to be taken concerning fiscal, financial and investment policies. Although the policy was extremely successful in containing inflation, this was done at a big cost. The Greek economy entered a record period of thirty successive months without growth, a trend that was in sharp contrast with the growth pattern that had prevailed from 1945 onwards (including the Civil-War period). The adjustment costs of the stabilisation policy were enormous, raising doubts as to whether it was required in the first place. There was very sound reasoning behind the view expressed by US officials in both Athens and Washington, that monetary stabilization could be pursued in tandem with growth.

US economic policies in Greece in the early 1950s have been interpreted in two different and conflicting ways, in the various studies on the period. Early studies¹⁰ had more or less accepted the official foreign policy version: Greece was unable to absorb and put into proper use large sums of aid; the corruption of politicians, the administrative inefficiencies of the government and the speculative activities of the business classes prevented the implementation of the industrialisation scheme. With the start of the Korean conflict US policy naturally shifted to new priorities. More recent studies¹¹ have questioned the very existence of developmental objectives in US intervention in Greece. The evidence from the economic development record in the post-1949 period simply reinforces this argument. US officials had already abandoned the industrialisation objective by 1948. With the Civil War over they were keen to decrease economic aid, stabilize the economy and disengage themselves from the Greek scene as soon as possible.

Some of these arguments are discussed in the second part of the paper that focuses on the policies pursued in 1951 and 1952. The emphasis is on the way that stabilisation policies in most cases lacked coherence and were ill-conceived, generating conflicts and dissension among successive Greek governments, the US Embassy and the Mission. However, international developments and the transitional state of Greek politics allowed policies to be implemented despite the opposition to them.

¹⁰ McNeil (1947), McNeil (1958), Munkman (1958), Sweet-Escott (1954).

¹¹ Amen (1978), Wittner (1982).

The Demilitarisation Policy: Winter 1949-50.

One month after the end of the military conflict, the U.S. Embassy in Greece established as an immediate priority the reduction of military forces and the drastic curtailment of the military budget, so as to allow resources to be directed towards reconstruction. In a public statement on 25 October, 1949¹² Ambassador Grady named 1950 as the «year of opportunity for Greece» as it now had «the chance to lighten her crushing burden of military expenses and to obtain an armed force smaller than the present but even more effective» The size of the armed forces was considered as far exceeding the defence requirements of the country against both the «10000 beaten guerrillas» and «its neighbours». The «risk of playing into the hands of the enemies of Greece» would be far greater if the current military burden on the economy was not reduced and the aid programme was not allowed to be effectively used for reconstruction purposes.

In a letter to the Prime Minister, Diomedes, two days earlier¹³, Grady advised the Greek government «to wholeheartedly support the tentative plans» that had been the result of «recent discussions between the Greek military authorities and the American Advisers». This tentative plan suggested the immediate reduction of the size of the military forces by 50 thousand men. Subsequent negotiations led to a final plan, according to which the armed forces were to be cut by half within a period of fourteen months. On 17 January, 1950 Grady informed the new Prime Minister Theotokis¹⁴ of this final plan¹⁵. In a second letter¹⁶ Grady expressed his concern over the budget deficit of the 1949-50 fiscal year, and recommended, in addition to the reduction of the military personnel, the elimination of family allowances for conscripts, the revision of pension legislation, and the merging of the three military ministries

¹² Statement by Ambassador Grady on the Reduction of the Greek Armed Forces, Oct. 25 1949, Athens Embassy. Confidential Files (AE-CF) 1950-52:500.

¹³ Grady to Diomedes, Let. 23 Oct. 1949, AE-CF 1950-52:500.

¹⁴ Grady to Theotokis, Let. no. 1 17 Jan. 1950, AE-CF 1950-52:500.

¹⁵ The Final Plan set the following reductions (all numbers in thousand):

	june 1949	Jan. 1950	June 1950	Jan. 1951
Greek National Army	197	147	114	80
Royal Hellenic Navy	14	12	10	7
Royal Hellenic Air Force	7	6	6	6
Gendarmerie	32	31	31	31
Category "C" (Makronisos)	14	10	-	-
Total	264	206	161	124

Source: *op. cit.* Grady to Theotokis

¹⁶ Grady to Theotokis, Let. no. 2 Jan 17 1950, AE-CF 1950-52:500.

so as to cut administrative expenses and overheads. In effect, Grady recommended the immediate reduction of the current military budget by a quarter.

Further cuts were under consideration. At about the same time, Grady asked General Van Fleet¹⁷ (Director of JUSMAG and joint architect of the Plan with General Papagos Chief of the Greek Armed Forces) to study additional measures, leading towards further economies and the scaling down of activities. These measures could curtail and even eliminate activities that had been built up during the Civil War and were considered unnecessary in the new circumstances. In view of the coming elections in the spring of 1950, special emphasis would be given to measures whose implementation did not require complicated legislation and could be accomplished by executive action.

This urge for immediate cuts on the part the ECA/G Mission expressed a concern primarily for the current budget. On 30 January, Grady informed the State Department¹⁸ that the Reconstruction Programme of 1949-1950 had to be cut by 20%, as the budget deficit was expected to exceed the initial predictions. In effect this meant that the planned contribution to reconstruction of the Counterpart Fund¹⁹ would have to be frozen if inflationary pressures were to be checked. The main impetus to the upward movement of prices was the devaluation of the drachma by 25% in September, a move that followed the devaluation of the British pound. The inflationary pressures fuelled by the drachma devaluation were exacerbated by the dependence of the economy on imports. In addition, a variety of other factors might have functioned as inflationary ones, the most important being the higher expectations of both consumers and producers as to the immediate improvement that the end of the Civil War would have on the economy.

Military expenses constituted 40% of the budget (table 1) and any attempt to reduce the deficit had as an obvious target such expenses. Surprisingly enough, the Greek government was less keen for such cuts. The leadership of the political parties was hesitant to get involved in such an issue a short period before the spring elections. At first nobody was keen to challenge the strength of the military establishment, which at the time was enjoying popularity²⁰ and was searching for a role in the post Civil-War situation. Secondly, the military

¹⁷ Grady to VanFleet, Memorandum Jan. 17 1950, AE-CF1950-52:500.

¹⁸ Grady to Dep. of State, Air Pouch Athens 113, Jan. 30 1950, AE-CF 1950-52:500.

¹⁹ The Counterpart Fund, constituted the drachma equivalent of the Import Programme financed by aid money, that is dollars. The Fund was to be used only for reconstruction purposes by financing the drachma part of the investment programme. As the inflationary pressures were strong during 1948-50 and the investment programme was moving at a slower rate, the Fund was almost frozen. Some amounts were used for covering the budget deficit in 1948 and financing the industrial loans programme in 1948 and 1949.

²⁰ Memminger to Minor, Political Discussion with ECA/G Field Representatives, Memor. Feb. 8 1950, AE-CF 1950-52:500-501.

expenses included a variety of indirect and direct income support schemes for soldiers and their families, and thus any attempt to abolish them would have obvious social and political consequences. Thirdly, the politicians tended to see the increase of aid as a way out of the fiscal crisis rather than cutting expenses.

Ambassador Grady was aware of such hesitations on the Greek side and, besides making certain that General Papagos would subscribe to these policies, he also pressed the government not to give in to the opposition of the military establishment. As Grady stressed to the Prime Minister, Theotokis, "in democratic countries, although the military authorities advise the government on issues such as the size of the military forces, the final initiative and the responsibility for the decisions lies with the political government"²¹.

It seems that there was a lot of uncertainty in America the prospects of the Greek economy. Despite the recovery of production to prewar levels, foreign aid still represented 35% of national income (table 1). Unless the export performance of the Greek economy improved drastically, the dependence on aid would continue if external payments were to be kept in balance. Such a prospect was very unlikely to be achieved within the two years remaining before the conclusion of the Marshall Plan.

This became evident in mid-1950, when the US Congress was preparing for a debate on the progress of the Marshall Plan. One of the main issues was whether there were countries in which recovery was slow and which consequently were strong candidates for continued aid beyond 1952. Acheson, the Foreign Secretary, mentioned to Ambassador Grady that the debate on the Greek case was inevitable, and asked for advice as to how to treat the issue²². Grady was extremely keen to avoid any reference to the possibility of extending aid beyond 1952, as that would weaken the pressure placed on the Greek government by the Mission for reforms²³. Yet, as things stood at the time, it was clear that economic viability in the sense that was prescribed a few years earlier, i.e. economic viability without the need for aid, was not to be attained by 1952.

By the same token the US side lacked any concrete and coherent policy programme for tackling the immediate post Civil-War situation. The Four-Year plan was definitely not on the agenda, other than a reduced version of the electrification plan and a programme of infrastructural investments for the agricultural sector. Institutional reforms were more or less prescribed, yet their effects would take some time before becoming evident. That had become clear during the visit to Greece of Hoffman, the ECA Administrator in Europe, back in August 1949. At the time the Greek government underscored the fact that military expenses and the refugee problem put enormous strain on the economy, and thus that the implementation of the Four-Year plan required substantial commitment by the ECA. Yet, Hoffman was almost certain that the

²¹ *op. cit.*, Grady to Theotokis (letter 2).

²² Acheson to Grady, Telegram 8 Feb. 1950, AE-CF 1950-52:500.

²³ Grady to Acheson, Teleg. 23 Feb. 1950, AE-CF 1950-52:500.

industrialisation plan had to be abandoned, as neither the resources nor the investment agents were available. Hoffman urged the Greek government to approach the industrialisation issue as “a gradual rather than revolutionary process” and to try to explore alternative and complementary paths to growth through rural development and tourism²⁴. The emphasis was again on internal reforms and the need to apply more rigorous policies in financial and fiscal areas.

At the same time in Washington as early as January 1950 the first attempts were made to design a stabilisation programme that would include both institutional reforms and policy measures, which would tackle on a permanent basis the stability issue²⁵. A report was drawn up by a committee including members from various institutions such as the State and the Treasury Departments, ECA/W, and the Federal Reserve Board. This report contained most of the ideas which subsequent developments turned into specific policies with a package of measures that were aimed for immediate implementation. A variety of proposals were included which found their way into the Grady Letter and subsequently into the economic programme of the Plastiras Government a few months later. The package that included longer-term policies contained the basic idea of linking the inflationary and deflationary factors in a coherent plan of monetary management, as well as a variety of proposals on how wages should be determined and how prices of agricultural products should be fixed. In effect here were the primary ideas that furnished the stabilisation policies activated during 1951 and 1952.

The “Grady Letter”: Spring 1950

The Grady Letter has been identified in Greek historiography as the first direct involvement of the US in the internal political affairs of Greece²⁶. Although the Truman Doctrine had furnished the US Mission in Greece with extended power over economic policies through the direct control of bodies such as the Foreign Trade Administration, the Monetary Commission and the Economic Policy Committee, and although the influence of the Embassy and the Mission indirectly extended also to political and military affairs²⁷, yet the US had been careful not to appear directly to be involved with government or ministerial affairs.

²⁴ Hoffman came to Greece in mid-August 1949, leading a group of ECA and OSR experts. For a report on his visit, J. McFall, First Secretary of Embassy to Sec. of State, Visit of ECA Administrator P. Hoffman and Party to Athens, 26 Aug. 1949, AE-CF 1949:500.

²⁵ Sec. State to ECA/G, Teleg. ECATO A-122, 22 Jan. 1950, Special Representative to Europe — Country Files: Greece.

²⁶ Linardatos (1976).

²⁷ Amen (1978), Thomadakis (1988), Wittner (1982).

After the elections of spring 1950, the three parties of the centre gained a majority, with the new party of Plastiras having the best electoral performance. In the immediate post Civil-War period, this outcome greatly concerned the palace, the military establishment and the conservative party, the Popular party, which until that time had exercised a strong hold on the state apparatus. The King attempted to form a coalition government made up of the Conservative Party and one of the parties of the centre; Venizelos, the leader of the Liberal party, was amenable to such a possibility. The Grady Letter was published a day before this government was to appear in parliament for a vote of confidence.

The content of the Grady Letter concerned not political but economic affairs²⁸. Phrased in highly diplomatic language, it outlined the economic programme that any future government was expected to implement in order to bring about the recovery of the economy. In less diplomatic language it stated that the candidate government was, in the Embassy's opinion, incapable of implementing such a programme. After Grady's intervention the Popular-Liberal coalition withdrew to be replaced by a government of the Centre, with all three parties participating under the premiership of Plastiras. Venizelos was offered the Ministry of External Affairs.

The economic programme included specific measures which aimed at the containment of inflationary pressures, and institutional reforms which aimed at improving public-sector efficiency and expanding private investment. Regarding the first, the most important recommendations were the freezing of wages and prices for three months, the implementation of the demilitarisation programme, the abolition of import and export subsidies, and the freezing of public employment at its current levels. Among the institutional reforms recommended, the most important referred to the tax system and included a reduction in tax exemptions and an increase in indirect taxation and legislation concerning the registration of shares. In addition, reforms of the public administration were proposed, including the application of a new code on public employees, regional decentralisation of administration, and the reorganisation of the ministries. Finally a group of measures aimed to encourage private industrial investment. These included the abolition of import taxes on capital equipment, revision of the indirect taxation of industrial products and simplification of the administrative system providing licences for industrial projects, the abolition of some highly restrictive legislation on the dismissal of employed personnel, and most importantly, the introduction of legislation to attract foreign capital. The industrial effort would be supported by the energy sector, which was to come under state control. Thus, the national energy network, built with Marshall Aid funds, as well as the telecommunications and water supply networks, were to be run by newly established state companies.

²⁸ Press Release, US Information Secretary, Athens, Grady addresses letter to PM Venizelos, March 31 1950, Mission to Greece — II Division.

The foreign companies, primarily British which had hitherto controlled these sectors, were already in deep financial straits and quitted.

With the formation of the new government the content of the Grady Letter became the subject of the government programme that was to be presented in Parliament. ECA/G got ready to advance specific policy measures²⁹ and most of the work was done in the Economic Policy Committee³⁰, a body established a few years earlier; its participants were the Prime Minister, the economic ministers and the Chief of the Mission and a number of ECA personnel. The final details were discussed in a special meeting by Porter and the economic minister³¹. Most of the ideas on the improvement of the fiscal performance of the government were included. On the issue of the industrialisation the government programme, included a statement on the pursuit of a moderate industrialisation programme without however specifying in any detail the programme itself. By the end of 1950, most of the institutional reforms had been passed by Parliament.

Thus although large-scale development had been abandoned there was some clear-cut policy in favour of gradual improvement that would simultaneously pursue stability and growth. Demilitarisation and fiscal policy measures were to improve the fiscal performance of the Greek state. The narrowing of the budget deficit was expected to have a double effect; on the one hand contributing to monetary stability and on the other releasing financial resources for private investments. This gradual improvement in the fiscal and monetary sector was to be accompanied by the completion of the energy and telecommunication networks which would remove the technical constraints for large-scale private industrial investment.

At about the same time, the first discussions on an immediate disengagement of US personnel from their current administrative posts took place. In January, Grady asked Washington for a revision of the 1947 Truman Doctrine policy which had engaged US personnel in posts in various sensitive economic institutions.³² For example an American was leading the Foreign Trade Administration; another was in the Monetary Commission with a veto right; a third was leading the Institution of Social Security and a variety of others occupied less significant posts. Grady favoured an early "disengagement" from the day-to-day management of such institutions, so that US influence could be channelled on an advisory level through the central government. Washington

²⁹ Porter to All Division Directors, The Greek Government's Policy Statement to the Chamber, 26 Apr. 1950, AE-CF 1950-52:500-501.

³⁰ ECA/G, Summary Minutes of Economic Policy Committee Meeting, 8 Apr. 1950, Mission to Greece — Finance and Programme Division.

³¹ D. Maynard to Department of State, Minutes of the Meeting Between Greek Minister of Coordination Tsouderos and Mr. P. Porter Chief of ECA/G, Memor. 713, 1 May 1950, AECF 1950-52:500-501.

³² American Embassy to Secr. State, Airtam A-38, 18 Jan. 1950, AE-CF 1950-52: 500.

thought that such a disengagement was premature particularly with regard to the Monetary Commission and the Foreign Trade Administration. Regarding less significant posts Washington allowed ECA/G to decide, a tactic which in most cases led to the removal of American personnel.³³

Rearmament and the First Cut of Aid: Autumn 1950

With the outbreak of the Korean war, the ECA was soon to rearrange its policies and objectives, so as to accommodate the new priorities in US foreign policy. On August 19, a telegram with the new guidelines was sent from the ECA Headquarters in Paris to all ECA Missions.³⁴ The message was quite clear. Policies in each country should be redesigned in line with the shift of emphasis from economic to military objectives and from long-to short-term planning. In the phrasing of the telegram - "We must recognise that placing Europe in picture own immediate self-defence is an objective which overrides immediate importance of any one the economic goals we and European leaders have established in past two years". The message added that "Activities and expenditures of limited human and material resources ... must be predicated on affirmative answer to the following question: does this decision reflect optimum contribution to short-range objective confronting US because of international situation". This new effort, however, required a lot of persuasive activity before it gained public support: "Public conviction that ultimate result of rearmament and defense planning will be stronger and better Europe is essential base on which our mutual defense planning at this stage must rest" and "we should avoid impression that even with large American aid we can continue with recovery as usual".

"Recovery as usual" was not to be continued and this is something that became evident to the Greek government in the weeks following the new guidelines. The telegram called for a meeting of the Chiefs of all Missions in late September in Paris, where final decisions for each country were expected to be made. Yet, decisions were taken before the meeting. On 15 September, Porter, the Chief of the Mission, informed members of the Greek government at a closed meeting that a reduction of ECA aid to Greece would be announced shortly. The amount of the cut was not disclosed. The cut was justified on the grounds of the inadequate utilisation of previous aid funds and the lack of reformist zeal on the part of the government. Minor, the Secretary of the US Embassy, reported a few days later that the reaction of the Greek officials was not particularly strong and that the discussion focused on the idea of conditional

³³ ECA (Hoffman) to American Embassy, Teleg ECATO 257, 15 Feb. 1950, AE-CF 195052:500.

³⁴ ECA/Paris to ECAG, Teleg. RC 189, 19 Aug. 1950, AE-CF 1950-52:500-501.

aid, that is restoration of aid in case of improved performance by the Greek government.³⁵

The Greek Ambassador in Washington approached the State Department with the proposition of conditional aid, that is to put the amount cut in reserve with restoration contingent upon adequate progress in the economic policy targets set within a specific timetable. The Department of State agreed to consider such an arrangement and discuss it with the ECA.³⁶ It also asked the views of ECA/G and the US Embassy. Grady did not oppose the idea. In his final Report as Chief of ECA/G in November he stated that "if the government can assure sufficient drachmas on a non-inflationary basis for a larger investment programme, a partial restoration of aid cut might be justified".³⁷ On the other hand Peurifoy, the new Ambassador, was very negative to the idea. "I recommend we give Greeks no encouragement to think the cut will be restored".³⁸

The text that ECA/G was to transmit to the Greek government, as soon ECA/W had made known the allocation Aid for 1950-51, was sent for approval to the Secretary of State. The text included strong statements, that according to ECA/G, "will come as a shock to Greek people". Still, "such a shock is necessary if our objectives of avoiding dissipation of our aid and terminating aid at earliest possible date are to be achieved". In the cover letter of the text, ECA/G blamed the cut on the present and past Greek governments. "The unpreparedness to use a large amount of aid arises from the fact that the Greek governments which have held office since the beginning of American aid have not made or put into effect the administrative and economic policy decisions which are essential to the best use of aid funds and which would evoke a parallel Greek contribution".³⁹

An apparent policy shift was contained within this hard-line approach of ECA/G, as a few months earlier in March 1950, the propositions of ECA/G accepted by ECA/W, exempted Greece from the well-known Snoy-Marjolin formula. According to this formula, aid funds for 1950-51 and 1951-52 were to be a quarter less and half, respectively, of the aid funds allocated in 1949-50. Greece was treated as a special case which would receive in 1950-51 the same amount as in the previous year and a quarter less in 1951-52.⁴⁰ After the new guidelines from ECA, ECA/G proposed that Greece be treated as the other countries and that aid be reduced by 25%.⁴¹

³⁵ Minor to Sec. State, Teleg. No 899, 16 Sept. 1950, AE-CF 1950-52:500-501.

³⁶ Sec. State to Athens Embassy, Teleg. No 994, Sept. 1950, AE-CF 1950-52:500-501.

³⁷ Report of the Chief of the ECA Mission to Greece for the period of 7 September 1949 to 11 November 1950, AE-CF1950-52:500-501.

³⁸ Peurifoy to Sec. State, Teleg. No 1099, 29 Sept. 1950, AE-CF 1950-52:500-501.

³⁹ ECA/G to Sec. State, Teleg. TOECA 1493, 13 Sept. 1950, AE-CF 1950-52: 500-501.

⁴⁰ ECA/W, Explanation and Justification of American Request for 1950/1951, Washington DC, March 1950, p. 19, AE-CF 1950-52:500-501.

Very little is known as to how and why this apparent shift in the policy of ECA/G came about. Certain speculative hypotheses are possible however. To begin with, it was during September that Grady was replaced by Peurifoy as the new US Ambassador to Greece; some time later, Lapham replaced Porter as Chief of the Mission. In one respect the hard line may have been the outcome of the new leadership's attempt to become as effective as possible by putting pressure on the Greek government. Second, the policy shift of the ECA during the summer undoubtedly had an impact on all Missions which aimed at presenting a good record on the new policy priorities. Third, the political parameters must be considered although these are more difficult to assess. Plastiras had been replaced in the Premiership by Venizelos and, while Grady's favourable political solutions were more or less consistent, there is very little known about the sympathies of the new chiefs. By the autumn governments were being formed every second month and political elections were again planned for next year.

ECA/G officially announced the cut in aid in late September, blaming all Greek governments and submitting a list of demands as to the appropriate reforms that were to be pursued. These demands were very much a variation of the proposals included in the Grady Letter. The Greek government revealed the letter to the public,⁴² as otherwise the cut in aid might have been viewed as US disapproval of the current government.

The cut had two direct economic effects. First the actual reduction of aid left the Greek economy with fewer imports. As a significant part of them consisted of basic goods which were highly inelastic, the decrease in aid had a far more negative impact on the imports of capital and other investment goods. Second, the shift towards the rearmament programme had as a direct effect the freezing of military expenses and the size of the Greek armed forces returned to the level of mid-1950. As a burden on the economy and as a misuse of manpower military expenses were in relative terms the highest in Western Europe. They accounted for just above 10% of the GNP (table 1) and military forces kept almost 3% of the population under a percentage almost as high as the number of soldiers used fighting the Civil War.

The Stabilization Programme, 1951

On 17 February 1951, a common announcement of the Greek government and the ECA⁴³ informed the public about the economic agenda for the year. The content of the announcement was almost identical to that of the letter that

⁴¹ *op. cit* Report of the Chief of ECA.

⁴² Porter to PM Venizelos, Let. 27 Sept, 1950, Mission to Greece — Construction Division.

⁴³ Joint Statement of Greek Government and ECA Mission on the Present Economic Situation, 17 Feb. 1951, Special Representative to Europe — Country Files: Greece.

Lapham had sent to the Prime Minister⁴⁴, a few days earlier. In effect with this announcement the stabilisation programme was initiated. The final form of the programme was ready in Washington in early January⁴⁵ and identified four stages, in each of which certain measures were to be implemented:

Phase A included three main packages covering prices, foreign trade and finance. First, basic goods such as foodstuffs and clothing were to be distributed through the rationing system; price controls on all other products were relaxed. Second a tax on the use of foreign exchange was to be introduced so as to increase the price of imported goods. Third, the supply of finance was to be constrained by administrative measures, with more drastic cuts being made in the import and domestic trade. This package of measures aimed at the deflation of the economy.

Phase B consisted of a drastic change in monetary policy: namely the abolition of the "gold" policy. The free convertibility of the drachma to the gold sovereign was to be discontinued. Thereafter, the price of the gold sovereign was to be determined freely by the market.

Phase C included the devaluation of the drachma so as to reach a more realistic level in relation to the main foreign currencies and the abolition of the tax on the use of foreign exchange that was introduced in phase A.

Finally in Phase D the rationing system and other emergency measures introduced in the earlier phases were to be abolished, allowing free-market arrangements to determine prices, wages and profits.

These measures and the basic concepts on which this programme was founded were strongly influenced by the analysis and the recommendations of the Report drawn by the Mission of the International Monetary Fund which had visited Greece at the end of 1950. The Report⁴⁶ focused on three major topics, namely inflation, price distortion and the over-valued drachma, which combined to hamper the growth of production and exports. The recommendations focused therefore on the reduction of the public deficit, a reduction in money supply and the devaluation of the drachma by 30%. In addition the Report recommended certain reforms that would end state intervention in matters concerning the level of wages in the private sector, the prices of a variety of products as well as profit rates in too many activities. In this respect, the removal of constraints that prevented the market mechanism from determining wages, profits and prices was the primary objective. And there were no predictions as to how the economy would respond to such measures. The Report remained extremely thin on the specific structural characteristics of the Greek economy.

⁴⁴ Lapham to PM Venizelos, Let. 29 Jan. 1951, Special Representative to Europe — Country Files: Greece .

⁴⁵ Foreign Trade Administration, Integration of Ration Plan with Broad Economic Plan, 23 April 1951, AE-CF 1950-52:500-501.

⁴⁶ International Monetary Fund — European and North American Department, Report of the Mission to Greece, 15 Nov. 1950, Mission to Greece — Construction Division.

At the end of February the first phase of the stabilisation programme was activated. The rationing system faced various technical problems in its implementation, which delayed the starting date until May, and required extra imports during the rest of the year. In April Peurifoy remarked to the Secretary of State that «the most urgent and disturbing problem confronting Greece and US representatives here at present time is the deteriorating economic situation». In addition the lack of the necessary reserves for supplying the rationing system, put the Mission in the embarrassing position of pressing for implementation of the vital programme, the key element of which it is unable to supply»⁴⁷.

Yet it is evident that the rationing system had a favourable impact on prices (table 2). The prices of the main products decreased in comparison with the previous year, while the price index of the non-regulated food products increased by 15-20% in the same period. The containment of price inflation was pursued with two additional measures. First agricultural products, whose prices were influenced by the protected prices set by the government, received only slight increases. Second a tax on the use of foreign exchange for imports was introduced with all products being classified in four categories. The tax ranged from 0 by 100%. This tax worked as a form of devaluation and the prices of imports increased on average by 10% during 1951. On the other hand prices of local goods as indicated by the relevant wholesale index remained, on an annual base, constant. However an important factor in the stabilisation of prices was decreasing demand as a result of the incomes policy and the deflation of the economy.

International developments during 1951 were to strengthen even more the stabilisation priorities in Washington. Back in the US price controls were introduced, as there was great concern over the inflationary impact of the rearmament programme. The new preoccupations with defence produced a change of direction in the Marshall Plan. In addition both the British and the French requested a significant increase in aid in order to sustain their economies and the rearmament effort⁴⁸.

By autumn, the amount of aid for the 1951-52 fiscal year became the crucial issue. Unlike the previous year, Peurifoy sided with the Greeks in attempting to keep the cut as small as possible. Initial plans, in the «Istanbul Conference» had recommended that «in Greece economic aid should continue as at present»⁴⁹. It had envisaged aid to be in the range of 225 million dollars, which represented

⁴⁷ Peurifoy to Sec. State, Teleg.No 3393, 11 April 1951, AE-CF 1950-52:500-501 & Foreign Trade Administration, Comments on Greek Rationing Plan, 23 April 1951, AECF, 1950-1952:500-501.

⁴⁸ Bonner Sub-Committee, House Committee on Expenditures in Executive Departments, American Embassy — ECA/G — JUSMAG, 14 Nov. 1951, AE — CF 1950-52:500 & Sec. State to Peurifoy, Telef. CIRC 421, 23 Jan. 1951, AE-CF 1950-52:500-501.

⁴⁹ Peurifoy to Sec. State, Teleg. No 3406, 12 Apr. 1951, AE-CF 1950-52:500-501.

a small cut in comparison with the previous year. With Washington, however, aiming at a 25% cut in all Marshall Plan countries, Peurifoy and the ECA/G Mission rearranged the amount and insisted on the 200 million dollar limit. The announcement of 182 million dollars was accepted with disappointment by both the Greek government and Peurifoy. The latter made it clear to Washington; «I am by no means confident 182 million will prove adequate to assure basic US objectives»⁵⁰.

The new cut in aid affected primarily the investment programme. Besides the industrialisation programme, which had already been cut in the previous year, it was the electrification programme and the rural infrastructure projects that were most threatened. At the end of 1951 ECA/G seemed to be worried as to how vigorously the stabilisation plan was to be pursued and was keen to adopt a more gradual approach. By November 1951 the controversy between ECA/G and ECA/W had developed into a divergence as to the basic assumptions of US Aid. This was best summarised in the telegrams exchanged between the US Embassy and the State Department. Washington insisted «on defining US objectives as financial stabilisation to preserve defense effort», while the Embassy and ECA/G emphasised the need to attain «a broad economic stabilisation reflected in sufficient social and political stability to preserve the defense effort»⁵¹. With the war of words escalating, Peurifoy made a last attempt to save the investment programme even on a reduced scale⁵². He insisted that the «no new project» policy, which since the summer had prevented aid money from financing any new infrastructural project, should become more flexible with respect to small village-level projects and other much-required technical projects in rural Greece. However with the Monetary Plan for 1952 being almost ready a reversal of events seemed impossible.

The Monetary Plan, 1952

In early 1952 the National Advisory Council endorsed the recommendations of the Tenenbaum Report⁵³ which with respect to the appropriate timing of the monetary reform suggested the spring of 1952. Tenenbaum had been sent to Greece to reveal the situation and to make the final recommendations on the monetary reform programme. His report was

⁵⁰ Peurifoy to Sec. State, Teleg. No 2388, 20 Nov. 1951, AE-CF 1950-52:500-501.

⁵¹ Peurifoy to Sec. State, Teleg. No 2869, 21 Dec. 1951, AE-CF 1950-52:500-501. Yost to Sec. State, Teleg. No 2515, 29 Nov. 1951, AE-CF 1950-52:500-501.

⁵² Peurifoy to Sec. State, Teleg. No 2746, 13 Dec. 1951, AE-CF 1950-52:500-501.

⁵³ ODonell (Sec. of Bisell) to P. Porter (Chief — European Office of MSA), The Tenenbaum Report, 29 Dec. 1951, Special Representative to Europe, Country Files: Greece.

extremely critical of the past US economic policies in Greece and strongly recommended immediate monetary reform as the only viable policy option. It proclaimed that monetary reform presented considerable advantages when compared with the option of gradual currency stabilisation. The latter could produce widespread bankruptcies among commercial and industrial firms, as well as among banks, as the decline of the value of capital assets and commodity stocks might be well in excess of their short-term debts to the banks. On the contrary the monetary reform would write off existing debts and encourage the reappearance of stocks of commodities and gold. Taking into account the negative effects that monetary reform could have on production and employment, Tenenbaum insisted that the main aim of the reform was to attract speculative capital and strengthen sound productive activities. Thus the Report proclaimed that the immediate reform was the best policy under these circumstances.

In mid-January 1952, Turkel (the Economic Advisor to the US Embassy) and Costanzo (the US member in the Currency Committee) prepared a memorandum summarising the US economic programme in Greece, which the Ambassador was to take with him on his trip to the US⁵⁴. It covered the areas of budget, devaluation, currency reform, gold policy and level of aid. In each of them there were suggestions as to what quantitative targets should be set and how and when specific measures were to be introduced.

a) Budget deficit had to be further reduced with the introduction of new emergency measures.

b) Devaluation and currency reform would be a combined action that would set a rate of the new drachma to the dollar at 30, that is a 50% devaluation, and would cut money circulation by half. This was planned at the latest for May 1952.

c) Gold policy should be abandoned at the time of currency reform, while in between the open-sale policy could be replaced by secret operations by the Bank of Greece.

d) On the level of aid there were no specific suggestions. Yet it was in favour of keeping up the pressure on the Greek government which was threatening to cut the military budget and violate the «no new projects» policy. The final part of the memorandum identified the various political and social groups that opposed the stabilisation plan, the major conclusion being that if they succeeded in preventing the plan then the only available option for US policy was to restore the cut aid.

One day earlier Peurifoy had received a letter from the Coordination Minister, Kartalis, summarising the Greek views⁵⁵. The major demand on the Greek side was the rescue of some of the projects that had been included in

⁵⁴ Turkel and Constanzo to the Ambassador, US Economic Program in Greece, Memor. 16 Jan. 1952, AE-CF 1950-S2:500.

⁵⁵ Kartalis to Peurifoy, Let. 18 Jan. 1952, AE-CF 1950-52:500.

the investment programme of 1951-52 but which successive cuts in aid had prevented from being implemented.

On 19 January, the Greek government and MSA/G agreed on a statement of understanding which contained the policies and targets of the economic programme to be pursued during 1952⁵⁶. Armed forces were to remain at existing levels although their budget would be slightly reduced; wage and salary increases were to be kept small; price controls would be imposed on 40 commodities; there was to be no increase in the protected prices of agricultural products; an interest rate would be set on all credit required by the government from the Bank of Greece; the public investment programme was to be limited to the completion of projects already begun with a ceiling of 50 million dollars for imports of capital equipment and 450 billion drachmas of Counterpart funds and budget money.

Obviously, the most important aspect of the agreement concerned the Monetary Plan. This was to be implemented during the first six months of 1952. It took the form of a highly simplistic model that was supposed to balance inflationary and deflationary factors. The monetary objectives became the sole criterion for economic policy, adjusting accordingly fiscal and investment parameters. The Monetary Plan had the following form⁵⁷:

A) Inflationary Factors	B) Deflationary Factors
1. Budget Deficit (270)*	1. State Commodity Sales (654)
2. State Commodity Procurements (787)	2. Imports
3. Exports (375)	a. private (810)
4. Invisible Income (225)	b. state (544)
5. Increase of Credit	3. Invisible Payments (98)
(Bank of Greece) (300)	4. Reduction of Credit (Bank of Greece) (-)
	5. Net Increase of Savings (Bank of Greece)
	a. public (60)
	b. private (-)
Total (1957)	(2166)

* all figures in billions of drachmas

Source: Air Pouch, American Embassy to Secretary of State, Progress in the Economic Stabilization Program, 26 Mar. 1952, AE-CF 1950-52:500

⁵⁶ Statement of Understanding between the Greek Government and MSAG, 19 Jan. 1952, AE-CF 1950-52:500.

⁵⁷ *op. cit.* Turkel and Constanzo to the Ambassador.

The difference between the balance of the two group of factors was named as the «inflationary or deflationary gap». Depending on the trend of this gap decisions on what amounts could be released from the Counterpart Fund would be then taken. In effect the monetary targets were to determine the fate of the investment programme. In quantitative terms the targets of the Plan were negotiated between MSA/G and the Greek government in mid-January⁵⁸ and by mid-March were as follows:

Deflationary Gap (Janury-June 1952)	
Target	273
Attained (first quarter)	132
Predicted (second quarter)	209
Investment Prog. (target)	300
Necessary Reduct. of Invest. Progr.	232

Source: *op. cit.*, American Embassy to Secretary of State

The way that such targets were set is indicative of the simplicity of the model. The primary parameter was that of the deflationary gap, identified with the quantity of money in circulation. Thus the figure of June 1951 was used as the initial base and a 10% increase set the target for monetary circulation in June 1952. The currency contraction target was set by taking into consideration the actual circulation in January 1952. Therefore circulation had to be reduced by 273 billion drachmas and the balance of deflationary and inflationary parameters were estimated accordingly.

It soon became evident that the agreed quantitative targets could not be met. In March a crisis had arrived and the two camps favouring and opposing the Plan came into conflict. As indicated by the relevant data the target of the deflationary gap could only be attained if the limited investment programme of 300 billion drachmas was to run flat. Consequently there was an immediate response to the crisis.

Turkel, a strong supporter of the Plan, insisted with Peurifoy that he should not give in to the demands of the Greek government which wanted to go on with the investment programme despite the deflationary gap. In a very critical mood towards the Mission's policy he summarised the issue at stake: «The crisis over the Greek investment program has finally come. It is no longer possible to preserve its major outlines by slowing down, stretching out, or the even more comfortable device of not paying bills. Basically it is the economic consequence of the Mission's failure to give timely recognition to the repeated warnings that

⁵⁸ *op. cit.* Statement of Understanding.

the basic objectives of the US in Greece are (1) military defense (2) economic stability and (3) viability. The Mission has not believed this and has persisted in ranking viability above economic stability... The Greeks finally realize ...that the investment program has been smashed flat and there are only two ways out. Either the Greeks make room for the investment in the balance sheet of inflationary and deflationary factors, or they will make the political approach to you to save the program...I strongly urge that we keep the pressure on up to the very last moment»⁵⁹.

Still, Peurifoy was less keen to defend the plan. Together with Lapham, he urged Washington to allow the more flexible use of the resources of the Counterpart Fund so as to go on with the investment programme⁶⁰. MSA/W responded and made certain that there would be no policy reversal. The investment plan had to be abandoned⁶¹. Peurifoy's new response was phrased in very strong words. «The Embassy having studied the effects of the decision of MSA/W for setting the ceiling of the Counterpart Fund at 300 bil. drachmas, has come to the conclusion that prior to this decision significant changes in US policy towards Greece have taken place, of which the Embassy was not (specifically) informed»⁶². He wondered which kind of policy set the monetary target as an iron law which pre-determined all other parameters including economic, military and political. Lapham was more explicit and summarised his response in a highly critical letter with the following statement: «Having received his directives this Mission Chief has donned his Firechief's hat, has sharpened his hatchet and is now set to tear down as much of the house of Greece, which American aid has helped to erect, as it is necessary to stamp out inflation»⁶³. Lapham wished to resign immediately and it was only pressure from Peurifoy that made him postpone his decision until a replacement was appointed⁶⁴.

On 12 March, Acheson announced the formation of an interdepartmental group, the Wellton Group, that was to be sent to Greece. After consultation with the Embassy and MSA/G, the group was expected to produce policy recommendations that would have a broad consensus among the US policy makers⁶⁵. Peurifoy did not seem to be satisfied. He insisted on an immediate policy response from the National Advisory Council; «a flat ceiling of 300 billion for the semester would be detrimental to basic US interests in Greece...I feel that

⁵⁹ Turkel to Ambassador, Projects in Greek Investment Program to be Saved if Present Negotiations Fail, Memor. 26 Mar. 1952, AE-CF 1950-52:500.

⁶⁰ Peurifoy to Sec. State, Teleg. No. 4310, 31 Mar. 1952, AE-CF 1950-52:500.

⁶¹ MSA/W to Athens Embassy, Teleg. MUSTO 234, 8 Mar. 1952, AE-CF 1950-52:500.

⁶² Peurifoy to Sec. State, Teleg. 10 Mar. 1952, AE-CF 1950-52:500.

⁶³ Lapham to Sec. State, Teleg. 11 Mar. 1952, AE-CF 1950-52:500.

⁶⁴ *op. cit.* Peurifoy to Sec. State, 10 Mar. 1952.

⁶⁵ The Wellton Committee was established in April and visited Greece in May, Sec. of State, Teleg. No 5209, 6 June 1952, AE-CF 1950-52:500.

no useful purpose will be served by allowing the experts to haggle again by telegraph over the yardstick as to progress toward economic stability...Recognize the paramount authority of the N.A.C to determine what releases above 50 billion monthly are compatible with economic stability. I trust they will adopt a more realistic approach as to the rate at which progress can be achieved in this country»⁶⁶.

The friction between MSA/G and MSA/W soon found its way into the Greek press⁶⁷. Finally Turkel became active in persuading Kartalis about the need to go on with the stabilisation plan⁶⁸. The Greeks however were optimistic. On 18 March, in the Steering Committee meeting, which included the Mission Chief, the Prime Minister and the Economic Ministers, there was cautious optimism that the financial programme was on the right track. Lapham presented the situation and the need to sacrifice the investment programme. Kartalis, who in any case had proved to be an extremely effective and competent politician, found the situation encouraging as inflation was very low, exports were doing well and the monetary target were being achieved. Most important, the sales of gold sovereigns had been halved in comparison with the previous year. He underlined the fact that the investment programme of 450 billion drachmas could hardly affect the stabilisation target and indicated that an additional 4 million dollars in foreign exchange would be sufficient for starting up four crucial industrial projects⁶⁹.

The Greek government was in any case in a very awkward position. The major embarrassment to the government came from political developments. While it had been elected on a pacification platform, it was forced to proceed with the execution of the arrested communist leaders, despite the widespread international criticism and unavoidable internal dissension⁷⁰. But, even on the economic front, it was also finding itself in the peculiar position of having to implement a highly unpopular economic programme which was driving the economy into its first postwar recession without at the same time having the prospect of capitulating on stabilisation itself. Having survived a second election in the autumn of 1951, the centre had too many internal problems and at the same time it faced the gradual shift of various social forces towards the «Papagos Solution». There were strong indications that the US Embassy was also to favour this solution. The US insisted on the replacement of the electoral law which was based on a system of proportional representation with a system of majority rule, but this required constitutional reform. Peurifoy did not

⁶⁶ Peurifoy to Sec. State, Teleg. No 4128, 15 Mar. 1952, AE-CF 1950-52: 500.

⁶⁷ The newspaper «Vima» published an article on the conflict between MSA/G and MSA/W on 10 June 1952.

⁶⁸ Turkel to the Ambassador, Conversation with Minister of Coordination, Memor. 13 Mar. 1952, AE-CF 1950-52:500.

⁶⁹ Peurifoy to Sec. State, Teleg. No 4181, 20 Mar. 1952, AE-CF 1950-52:500.

⁷⁰ Linardatos (1978).

hesitate to make such a demand public while the 1952 constitution was being drawn up⁷¹. In addition another election was due in the autumn of 1952. During the summer of 1952, the Centre increased its Anti-American propaganda in attempt to disassociate itself from past government policies⁷². Yet the US Embassy was reluctant to accept, at the time, any such criticism. Peurifoy asked Venizelos to denounce his interview in the Athens Press and to desist from such propaganda⁷³.

The ongoing conflict over the Monetary Plan had a direct implication the postponement of devaluation. With May 1952 being excluded, the second option would have been the autumn of 1952. As however it was uncertain whether new elections would be called for the autumn, the next appropriate time would be the spring of 1953. Such flexibility on the timing of the Reform was only possible because the deflation of the economy was so intense that there was no apparent threat a re-emergence of inflationary pressures.

The Recession

As expected, the second phase of the stabilisation programme was extremely effective in terms of the containment of inflation. Despite the seasonal fluctuations, which had been common at the time, the price indices indicate that prices remained constant all through the year (Table 2). Moreover the prices of imports followed a similar trend. The price of gold sovereigns, which undoubtedly represented the best index of business expectations, fell for the first time since liberation. The policy on gold was, for a number of years, pre-occupied with keeping the price of the gold sovereigns constant in the range of 220-230 thousand drachmas. The Bank of Greece adjusted supply to demand so as to prevent any price increase. During 1952 there was panic in January as the fear of an immediate devaluation produced a sudden increase in demand. This was met by the extra shipment of sovereigns from the Federal Reserve of New York⁷⁴. Yet by May the price had fallen to 210 and by the summer to 185 thousand drachmas. During the same period, the circulation of sovereigns held by individuals and firms increased and as the business community became very worried, the Bank of Greece began secret purchases to prevent any further decline of the price of sovereigns⁷⁵. In effect one of the major aims of the stabilisation programme had been accomplished without requiring the administrative prohibition of the free sales of gold sovereigns, as had initially been planned.

⁷¹ Clogg (1987).

⁷² Interview by Venizelos in the Athens newspaper «Athinaiki» on 4 June 1952.

⁷³ Peurifoy to Sec. State, Teleg. No 5209, 6 June 1952, AE-CF 1950-52:500 Statement by Venizelos to Greek Press on 7 June, 1952.

⁷⁴ Peurifoy to Sec. State, Teleg. No 2981, 1 January 1952, AE-CF 1950-52:500.

⁷⁵ Peurifoy to Sec. State, Teleg. No 4928, 16 May 1952, AE-CF 1950-52:500.

The response of the economy to the stabilisation policy of 1951 and 1952 may be examined through the available evidence from the industrial sector. By the end of the Civil War the industrial production index was at 90 compared to the pre-war 100, yet within a year it had reached 120⁷⁶. From October 1950 to March 1953 (table 4), that is for thirty successive months, the index, apart from minor fluctuations, remained constant. A more detailed examination of the specific industries indicates that there was no uniform pattern. Industries that produced materials and products for the construction sector almost doubled their production reaching the highest index of 191 by 1953. This was the result of booming construction particularly in the Athens area. At the same time, the cement factories, which had absorbed most of the AMAG and ECA industrial loans back in 1948 and 1949, were completed, tripling the productive capacity of this industry⁷⁷. Electricity production was also more than doubled. The hardcore of the manufacturing sector consisting of textiles, food and the chemical industries, and representing almost 70% of the manufacturing sector, remained constant. This group of industries proved extremely sensitive to fluctuations in demand. While this worked to their advantage during 1944-50, when these industries had the best recovery record, it became a disadvantage during the stabilisation period. Finally a final group of industries that included wood, clothing and machinery had a very slow recovery and reached its pre-war levels only in 1953.

A major aim of the stabilisation policy was to increase supply, strengthen competition and produce a fall in prices. Yet it seems that the industrial sector responded by simply adjusting supply to demand and keeping prices constant. The profitability squeeze was to be tackled by cutting employment and keeping wages as low as possible. It is interesting that ECA/G was not very keen on freezing wages during the stabilisation period. While it insisted on keeping the prices of agricultural products constant, encouraging farmers to increase production if they were to gain higher incomes, in the case of the industrial sector it favoured small wage increases. On this issue they came increasingly into open conflict with the industrialists. Wages had undergone three adjustments from 1947 to 1952: in November 1947 when AMAG was pursuing its reform programme; in October 1949 just after the end of the Civil War, when the drachma was devalued; and in early 1951. During the spring of 1952 the issue came back onto the agenda with the Greek government and the Economic Mission favouring some minor increases which would be compatible with the stabilisation programme and yet would partly contain social and political pressures. The Greek Industrialists Association opposed any wage increase

⁷⁶ For a discussion of the Industrial Loan Program of AMAG and ECA/G, Stathakis (1991).

⁷⁷ Federation of Greek Industrialists, "Answer of the FGI on problems needing investigation with regard to the readjustment of minimum wages and salaries", Mission to Greece — Labor Information Specialist, Economic Matters.

particularly during the period of anti-inflationary policy. The Association produced a report that defended its position on the grounds that wages had increased faster than prices from 1944 onwards. According to the Report, particularly female workers had improved their standard of living in comparison with pre-war levels and any further increase was threatening the poor profitability margins of most manufacturing enterprises.

The evaluation of the Report by the Mission⁷⁸ indicated how much opinions and statistics differed. According to the Mission, prices and wages had followed a similar pattern in the post-war period. Yet unlike the pre-war period, the hierarchy of wages and salaries had become flatter at the top and medium levels, with most people receiving only minimum wages. In addition there were definite indications that violations of wage agreements were widely practised by entrepreneurs. Underlying this conflict were the recommendations of the Tenenbaum Report which identified the speculative activity of capital as one of the primary obstacles to stabilisation and development of the economy. Actually on this issue, the Report itself was not in any way not different from earlier thinking. The Porter Report in 1947 had been extremely critical on the issue and actually the direct involvement of US personnel in monetary, trade and fiscal areas aimed at controlling this speculative activity of capital. The AMAG and to a lesser extent ECA/G had remained faithful to the need to contain the eagerness of the local bourgeoisie for quick profiteering⁷⁹. Yet unlike previous thinking which had advocated the administrative control of the economy and proper macroeconomic management, the Tenenbaum Report reversed the argument, advocating monetary stabilisation as the appropriate solution to the problem.

During 1951 and 1952 the employment situation worsened in most urban areas. According to estimates by IKA, the national state insurance organisation, the urban unemployment index averaged 15% in 1952. Widespread variations must have been present, however. Thus the bulk of the reports that MSA/G was receiving from its network of local agents indicated that in most provincial towns the unemployment rate was almost double that of the national average, somewhere between 25 and 30%⁸⁰. In large-scale industry the available indices indicate decreases in industrial employment of about 10% with the regions being most affected in comparison with Athens⁸¹.

The investment programme came virtually to a halt. The Counterpart Fund

⁷⁸ McCoy to Strachan, Evaluation of the Memorandum of the FGI on wages, Memor. 18 July 1952, Mission to Greece — Labor Information Specialist, Economic Matters.

⁷⁹ Stathakis (1993), Thomadakis (1987).

⁸⁰ Reports by Johnston (Salonica), Dillon (Ioannina), Johnston (Eastern Macedonia), and others, all in Mission to Greece — Labor Information Specialist, Economic Matters.

⁸¹ Textile Federation to MSA/G Labor Division, Employment in the Textile Industry, Memor. 15 July 1952, Mission to Greece — Labor Information Specialist, Economic Matters.

which provided most of the drachma funds for the investment programme decreased in current prices from 2,300 billion drachmas in 1950 to 1,200 billion in 1951 and to just 523 billion in 1952. The 1951/52 investment programme was reduced from 84 to 45 million dollars. The industrial investment part of the programme collapsed. From 17 million dollars it was reduced to less than 2⁸². All new industrial projects were cancelled and even the investments aiming at the modernisation of existing plants were drastically reduced. The policy of «no new projects» also affected public investment in a wide spectrum of medium and small-scale projects in urban and rural areas. Finally the restrictions on credit increased considerably the cost of capital. The aggregate effect of the stabilisation policy was the reduction of investment from 15% to 7% of GNP⁸³.

If there was one exception to the rule, this was the construction sector. In Athens there was a boom in expensive housing in the suburbs and low-cost housing in the poor urban areas. Migrants had continually been moving to Athens for political and economic reasons from the liberation onwards. With the Civil War over housing construction expanded enormously. On the other hand the wealth gained during the occupation and the recovery years, had taken the form of gold sovereigns which had protected it from devaluation. Part of this wealth was invested in luxury housing. MSA/G felt that this development was responsible for the social conditions prevailing at the time for the vast majority of the population under the anti-inflationary programme. It asked the Greek government to reduce the rate of building licensing⁸⁴. However, as a large part of construction was taking place in the context of the underground economy, such policy measures proved totally ineffective.

In the autumn, economic aid for 1952/53 was further cut bringing the aid level to insignificant proportions (table 3). MSA/G had asked initially for 145 million dollars, which was 20% less than the previous year. MSA/W had agreed. Yet the Congress cut the total budget by 30% taking the figure to 102 before it issued a further reduction in August, which brought the final sum to 80 million dollars representing a 55% reduction on the previous year⁸⁵. The announcement of this final amount was delayed for three months as the new government under General Papagos had just been formed.

The 1953 Devaluation

The final phase of the stabilisation policy concerned the devaluation of the

⁸² ECA/G Paige to Keppel, Revision of the 1951/52 Reconstruction Investment Program, Memor. 26 Oct. 1951, Mission to Greece — Construction Division.

⁸³ Rough estimate by the author based on the trends of the Reconstruction Investment Program, the Counterpart Fund and private investment in industry.

⁸⁴ Lincoln to Turkel, Dep. of State, Let. 1 July 1952, AE-CF 1950-52:500.

⁸⁵ Jenergan to Martin, On Memo of Defense Support Aid to Greece in fiscal 1952, Memor. 22 Aug. 1952, AE-CF 1950-52:500.

drachma. Yet setting the appropriate time for it proved slightly embarrassing: as with the apparent deflation of the economy no one approached the issue with any urgency. Back in September, Tenenbaum had astonished MSA/G and the Embassy by questioning the very need of Operation No 2, as the devaluation had been named. An exchange of letters between Yost and Turkel from the US Embassy and Lincoln in the Department of State (in charge of Economic Affairs in the Office of Greek, Turkish and Iranian Affairs) is indicative of the mood in both Athens and Washington. As Yost pointed out «Tenenbaum, who two or three months ago was insisting that Operation No 2 was so important that we should push through a change in government in order to insure it, now blandly tells us that he thinks stabilization is proceeding so well that the operation, while still desirable, is no longer necessary»⁸⁶. Even Turkel, during the same period, found room for scepticism. As soon as the amount of the 1952-53 aid became known he expressed his concern: «I have been one of the original stabilization boys, but I am beginning to feel that we may be cutting too fast»⁸⁷.

In Washington views also differed. MSA/W, which was in any case responsible for any action to be taken, remained faithful to the idea of the reform. However, there was a lot of scepticism in the Treasury and the State Department. Lincoln himself stated to Yost his clear view on the subject: «As you know I personally am not happy at all about no 2. I don't think it is geared to the Greek scene...I have not found people well acquainted with the Greek scene who are in favour of it»⁸⁸. When by October Tenenbaum and the Mission argued for an increased investment programme that would boost agricultural production, MSA/W discouraged any such action⁸⁹.

By the autumn the issue of devaluation in Greece had become one of political speculation. With the cost of the reform having more or less been absorbed in the previous two years, both parties were keen to associate themselves with the monetary reform. In an attempt to save the Government of the Centre, Karamanlis had promised that «he could, with US support, continue the stabilization program until next spring, and then carry through a devaluation successfully»⁹⁰. With the US Embassy, however, being committed to the «Papagos Solution» it favoured the postponement of devaluation and insisted on proceeding with the autumn elections. As the Christmas period was traditionally inflationary and very unsuitable for such a measure, Operation No 2 had inevitably to be planned for the following spring.

After the elections and the formation of the Papagos Government, the new Finance Minister Mr. Markezinis asked the US Embassy for an immediate visit to Washington. He seemed to be confident that the US, pleased with the

⁸⁶ Yost to Lincoln, American Embassy, Let. 11 Sept. 1952, AE-CF 1950-52:500.

⁸⁷ Turkel to Maynard, Athens Embassy, Let. 18 Aug. 1952, AE-CF 1950-52:500.

⁸⁸ Lincoln to Yost, Dep. of State, Let. 21 July 1952, AE-CF 1950-52:500.

⁸⁹ Lincoln to Yost, Dep. of State, Let. 27 Oct. 1952, AE-CF 1950-52:500.

⁹⁰ *op. cit.* Lincoln to Yost, 21 July 1952.

election of Papagos, would be ready to provide some additional aid. The Embassy discouraged an early trip and at the same time reminded the State Department that the trip should not take place very close to the announcement of the reform as it would be considered of US origin⁹¹.

The extent of devaluation was, of course, the final crucial issue. Back in October 1950 the IMF Mission to Greece had recommended a 30% devaluation⁹². At the end of 1951 a team of Greek professors had chosen the 30-40% rate⁹³ and a few months later the famous Varvaressos Report had also recommended 40%⁹⁴. In July 1952, Turkel and Constanzo, after some consultation with the Greeks, came up with a proposal of 40-50%. MSA/W it seems at the time was thinking in much higher terms⁹⁵. The stagnation of the economy seems to have been the primary factor for this apparent decline of the external value of the drachma. The stabilisation policy had led to stagnation in production; the curtailment of investment in infrastructure had put off productivity gains. The Greek economy was trapped in a non-growth situation while the rest of Europe continued to expand, although at slower rates than previously.

The monetary reform was finally carried out in April 1953⁹⁶. It was identified with the Finance Minister, Markezinis. As indicated in this paper this Reform stabilised the drachma only because in the two preceding years the economy was sterilised from both money supply and investment, generating a huge recession, a drastic decrease in incomes and a significant increase in unemployment. Additionally, it seems that the curtailment of investment in infrastructure had a lasting effect on the economy, as private investment remained stagnant for most of the 1950s. It was actually the increase in public investment that produced growth during the 1950s. Industrialisation was successfully pursued during the 1960s. Ironically it resembled very much the ideas found in the Porter Report of 1947 and the Four-Year Plan of 1948-1952.

⁹¹ Yost to Sec. State, Teleg. No 1706, 24 Nov. 1952, AE-CF 1950-52:500.

⁹² *op.cit* IMF Report, Report of the Mission to Greece.

⁹³ *Ta prota peninta chronia tis Trapezas tis Ellados 1928-1978*, Athena, Bank of Greece 1978, p. 392.

⁹⁴ Varvaressos K., *Ektbesis epi tou oikonomikou provlimatos tis Ellados*, Washington, 1952.

⁹⁵ Lincoln to Yost, Dep. of State, Let. 15 July 1952, AE-CF 1950-52:500.

⁹⁶ A favourable analysis of the Reform is made by Eliadis (1954)

Table 1
GNP and Defence Expenditure, 1949-1952 (in tril. drachmas)

	1949	1950	1951	1952
A Net National Income*	14.5	20.1	24.3	26.7
B Total National Income (Including Foreign Aid)	19.6	27	33.3	35.8**
C Budget Expenditure	3.6	5.4	6.2	7.5
- as % of Net Nat. Income	27.2	27.1	25.5	27.9
D Defence Expenditure				
- as % of Net Nat. Income	13.3	12.8	12.4	12.5
- as % of the Budget Expend.	48.8	47.5	48.6	44.6

* Estimation of the U.N. Economic Commission for Europe

** Estimate on the assumption that Aid would be 250 million dollars, the real figure was 182 million

Source: Kartalis to Peurifoy, Adjustment of current financial and economic plan to reduced level of aid, Memorandum 5 Dec. 1951, Athens Embassy - Conf. Files, 1950 - 1952:500, Box 42

Table 2
Price Index, Aug. 1949 - Dec. 1952 (Oct. 1939=1)

	1949	1950	1951	1952
Feb.		363	405	421
Apr.		338	419	415
June		336	398	386
Aug.	349	384	396	395
Oct.	340	382	406	410
Dec.	340	389	409	410

Source: MSA Mission to Greece, Quarterly Statistical Report, Jan. - Mar. 1953

Table 3
US Aid to Greece 1949-1953 (in million dollars)

1949-50	256
1950-51	236
1951-52	182
1952-53	80

Source: MSA/Greece, Quarterly Statistical Report, Jan.-Mar. 1953.

Table 4
Industrial Production Index (1939=100)

	1949	1950	1951	1952	1953
Jan.		95	119	127	118
Mar.		96	118	126	124
May.		105	127	123	
July.		109	123	120	
Sept.	90	123	133	122	
Nov.	97	127	132	126	

Source: Ass. of Greek Industrialists, *Greek Industry* in 1954-55.

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