
Political Instability and Economic Development: an Economic History Case Study of Greece, 1948-1966

A.J. Kondonassis *

University of Oklahoma

A.G. Malliaris

Loyola University of Chicago

N.S. Robinson

William Carey College

INTRODUCTION

It has been conjectured by experts on economic development that political instability exerts a significant retarding influence on economic development. Such a conjecture seems reasonable since economists have recognized the existence of a strong interrelationship between a nation's economic and political variables.

Although the subject of political instability and economic development is interesting on both theoretical and applied grounds, little research has been done to shed light on its different aspects.¹

* The authors are David Ross Boyd Professor of Economics, Director of Graduate School of Business and Dean of College of Business, respectively.

¹ Among the relatively few recent studies on the probable relationships between political stability and economic development are IRMA ADELMAN and CYNTHIA TAFT MORRIS, *Society, Politics and Economic Development: A Quantitative Approach* (Baltimore: The Johns Hopkins Press, 1971); IRMA ADELMAN and CYNTHIA TAFT MORRIS, "An Econometric Model of Socio-Economic and Political Change in Underdeveloped Countries," *American Economic Review*, Vol. LVIII (December 1968), pp. 1184-1218; IRMA ADELMAN, MARSHA GRIER and CYNTHIA MORRIS, "Instruments and Goals in Economic Development," *American Economic Review*, Papers and Proceedings, Vol. 59, No. 2, May 1969, pp. 409-26; NED STEPHEN ROBINSON, *Political Instability and Economic Development: The Mediterranean Countries*, (unpublished dissertation, University of Oklahoma, 1973).

The reason for this is that the nature of the question requires an empirical investigation, and satisfactory data necessary to conduct such an investigation are not available. Furthermore, several other methodological questions exist that make research in this area rather difficult.

It is the purpose of the present study to investigate some of the issues involved in the hypothesis that political instability hinders economic development. The subject of the study is Greece during most of the post-World War II years, in which peace prevailed in Greece and for which data are available. The beginning of the period also coincides with the initiation of relatively large amounts of U.S. aid to Greece. The study does not cover the period after the April 1967 coup d'état because parliamentary government was suspended. On the basis of some primary findings concerning the hindrance of economic development by political instability as experienced by Greece, some generalizations will be attempted.

Although it is always desirable to conduct research on grounds that are as general as possible, the empirical nature of this study restricts its scope. Statistical data are used extensively and are interpreted on the basis of traditional economic analysis.² When used in the study, "political instability" refers to the existence of more than one government every three to four years.³ "Economic development" refers to a net increase in real per capita output.

POLITICAL INSTABILITY IN GREECE, 1948-1966

On the basis of the previous definition of political instability, Greece should have been ruled by at most five or six governments during the 1948-1966 period. Instead, it had 28 governments during the 19-years period.

Several governments had a very short existence, not because of instability in their structure but simply because the reason for their creation was to carry out elections, i.e., to be caretaker governments. Unlike the United States where the president in office may be a candidate for re-election, political tradition in Greece often demands the resignation of the prime minister and his cabinet a few months before election time and the appointment of a politically neutral cabinet to run the government and to supervise the orderly process of new elections.

Other governments sustained a short life because of instability in their cabinet structure. Several political parties often attempted to seek power under

² An attempt to build a model to test statistically whether the independent variable of political instability was significantly related to a number of economic development variables, e.g., gross investment in dwellings, net capital transfers, etc., largely confirmed the tentative conclusions of this study.

³ This definition of political stability represents a theoretical possibility. The Greek Constitution provided for a maximum of four years per elected government, but as data in Table 1 show, this condition was seldom upheld during the period under review.

TABLE 1

NUMBER AND DURATION OF GREEK GOVERNMENTS, 1948-1966 *

Duration	Number of Governments
One month or less	4
Between 1-6 months	15
Between 6-12 months	3
Between 1-2 years	4
Between 2-3 years	1
Between 3-4 years	1

* The data in Table 1 indicate that the average duration for a government in Greece was eight months during this period.

a variety of proportional representation electoral systems. Consequently, an absolute majority seldom was achieved and coalition governments often took power, only to discover that political cooperation was a very difficult task. Cabinet restructure has been, therefore, a rather common phenomenon in the political history of post-war Greece. In some instances cabinet changes were so extensive that they could be viewed as alterations in the government itself.

Thus, taking into consideration the caretaker governments, and that several other governments had their lives abbreviated because of a cabinet restructure, the political instability was not really as pronounced as the data in Table 1 might suggest. In fact, Greece experienced a rather long period of political stability from 1955-63 under the political leadership of Prime Minister Karamanlis.⁴

ECONOMIC DEVELOPMENT IN GREECE, 1948-1966

The aggregative economic variables of gross national product and per capita gross national product — both measured in constant prices — are indicative of the economic development of Greece.⁵ Table 2 illustrates the evolution of Greek Gross National Product (G.N.P.) from 1948-1966. During this period, despite the rather wide fluctuations in the rates of economic growth, the Greek economy experienced an average rate of economic growth of 6.9 per cent. This rate was deflated from price increases and consequently it becomes clear that the overall performance of the Greek economy was most satisfactory.

⁴ Even during the Karamanlis era, 1955-1963, more than two governments were involved. However, all constitutionally elected governments were headed by Karamanlis, which justifies treating the entire period as one politically stable era.

⁵ For a more detailed review and analysis of modern Greek economic developments see A.J. KONDONASSIS, "Greece", in *Mediterranean Europe and the Common Market* (University: The University of Alabama Press, 1976).

It is worth observing that fluctuations in the rates of growth of Gross National Product per annum were milder during the latter years of the period, a fact which will be discussed further. In addition, very small increases in the Greek population allowed the increases in real GNP to become increases in real per capita GNP. Table 2 presents the 1948-1966 Gross National Product per capita of the Greek economy in constant 1958 prices. The average rate of growth in per capita GNP is 6.0 per cent, which, by postwar trends, is a relatively high rate of growth.

With respect to the monetary aspects of Greek economic development, Table 3 illustrates the behaviour of wholesale and consumer prices during the 1948-1966 period. The data on wholesale and consumer prices do not support the claim that the Greek economy experienced price stability during the entire period under review. However, more favourable conclusions concerning the attainment of price stability can be derived from studying data on prices from 1956-1966. For example, while the 1948-1955 period shows a total increase in consumer prices of 59 per cent, which implies an average annual increase of 7.4 per cent, the period 1956-1966 shows an average annual increase in consumer prices of only 2.4 per cent.

ECONOMIC PERFORMANCE AND POLITICAL INSTABILITY: A COMPARISON

Real Economic Variables

The basic real economic variable which can be compared to the political situation is the percentage rate of growth of real GNP. Table 4 shows that the 1948-52 period, characterized by political instability, had two years with high rates of growth and two years of relative stagnation. On the other hand, the 1952-55 and 1955-63 periods, both periods of political stability, show rather satisfactory rates of growth of GNP. Although a certain amount of fluctuation did occur, it can be attributed to variations in the agricultural output, which plays a significant role in the Greek economy.

It is interesting that the years 1963-65 and 1965-66, both periods of political instability, did not demonstrate an unsatisfactory performance of the economy, at least with respect to rates of growth. A possible explanation for this may be the relative insensitivity of the Greek economy to political turmoil during the early and middle sixties due mainly to the long constructive period of the Karamanlis era.

Obviously, rates of growth of real GNP are highly aggregative economic variables. Of the three basic components of GNP, i.e., consumption, gross investment and government spending, gross investment may be the component most sensitive to political instability. Furthermore, Table 5, which examines public and private investment, in reference to the political situation, suggests that investment is influenced by many factors, among which political instability is but one.

TABLE 2

GROSS NATIONAL PRODUCT AND GROSS NATIONAL PRODUCT PER CAPITA OF THE GREEK ECONOMY
1948-1966

Year	GNP In Million Drachmas ¹	Index 1948 = 100	Percentage of Growth Over Previous Year's GNP	Per Capita GNP in Drachmas ¹	Index 1948 = 100	Percentage of Growth Over Previous Year's GNP
1948	48,755	100		6,541	100	
1949	57,339	118	18.0	7,663	117	17.0
1950	57,496	118	0.0	7,599	116	-1.0
1951	62,480	128	8.7	8,171	125	7.5
1952	62,768	129	1.0	8,117	124	-1.0
1953	71,266	146	13.5	9,117	139	12.3
1954	73,679	151	3.4	9,334	143	2.4
1955	78,290	161	6.3	9,829	150	5.3
1956	84,701	174	8.2	10,547	161	7.3
1957	91,659	188	8.2	11,321	173	7.3
1958	94,152	193	2.7	11,520	176	1.8
1959	97,653	200	3.7	11,825	181	2.6
1960	101,991	209	4.4	12,248	187	3.6
1961	113,437	233	11.2	13,508	207	10.3
1962	117,507	241	3.6	13,909	213	3.0
1963	125,618	258	6.9	14,814	226	6.5
1964	137,157	281	9.2	16,116	246	8.8
1965	149,665	302	9.1	17,504	268	8.6
1966	159,369	327	6.5	18,502	283	5.7

¹ Constant 1958 prices.

Sources: *Statistical Yearbook of Greece*, 1971; *National Accounts of Greece*, 1948-70.

TABLE 3

GREEK WHOLESALE AND CONSUMER PRICE INDICES 1948-1966 ¹

Year	Wholesale Price Index	Percentage Change From Previous Year	Consumer Price Index	Percentage Change From Previous Year
1948	61 ²		63	
1949	71 ²	16.4	72	14.3
1950	71	0.0	78	8.3
1951	86	21.1	87	11.5
1952	86	0.0	92	5.7
1953	100	16.3	100	8.7
1954	112	12.0	115	15.0
1955	120	7.1	122	6.1
1956	131	9.2	125	2.5
1957	131	0.0	129	3.2
1958	129	- 1.5	131	1.6
1959	129	0.0	133	1.5
1960	132	2.3	133	0.0
1961	133	0.8	135	1.5
1962	133	0.0	135	0.0
1963	141	6.0	139	3.0
1964	146	3.5	140	0.7
1965	153	4.8	144	2.9
1966	157	2.6	151	4.9

¹ 1953 = 100.

² Salonika only.

Source: *United Nations Statistical Yearbooks*.

However, political instability of the Greek variety influences total investment behaviour in a significant manner by affecting public investment more than private investment. Furthermore, investment in dwellings was consistently the single largest item of total private investment. The rate of change of investment in dwellings experienced wide fluctuations but was mostly positive. A number of relatively small positive and two negative rates of growth of investment in dwellings characterized the periods of political stability. These rates may have resulted because political stability tended to minimize the importance of one of the reasons for investment in dwellings, i.e., hedging against the

TABLE 4

RELATIONSHIP BETWEEN GROWTH OF REAL GNP
AND POLITICAL INSTABILITY IN GREECE 1948-1966¹

Year	Percentage Growth of Real GNP	Political Situation
1948-49	18.0	Instability: Political and Caretaker Governments
1949-50	0.0	
1950-51	8.7	
1951-52	1.0	
1952-53	13.5	Stability: Prime Minister Papagos
1953-54	3.4	
1954-55	6.3	
1955-56	8.2	Stability: Prime Minister Karamanlis
1956-57	8.2	
1957-58	2.7	
1958-59	3.7	
1959-60	4.4	
1960-61	11.2	
1961-62	3.6	
1962-63	6.9	
1963-64	9.2	Instability: Papandreou
1964-65	9.1	
1965-66	6.5	Instability: Political and Caretaker Governments

¹ The seeming discrepancy in the data presented in Tables 4 and 5 is attributable to that in Table 5 a given year was matched with the type of political condition which prevailed during most of the year.

economic effects of political uncertainty. On the other hand, investment in manufacturing experienced sizable increases since 1954 so that the economy's structure steadily shifted toward more emphasis on manufacturing and less emphasis on agriculture. (Table 6).

TABLE 5

RATES OF CHANGE OF PUBLIC¹ AND PRIVATE² GROSS INVESTMENT
AND OF GROSS INVESTMENT IN MANUFACTURING AND IN DWELLING
COMPARED TO POLITICAL STABILITY AND INSTABILITY IN GREECE
1948-1966

Year	Public	Percentage			Political Condition
		Private	Dwellings	Manufacturing	
1948					Instability
1949	16.7	15.4	55.1	22.7	
1950	38.8	63.1	51.9	107.8	
1951	-34.3	6.4	4.3	-3.1	
1952	-12.6	-4.6	8.5	-0.0	
1953	6.6	5.5	48.0	-1.9	Stability: Papagos
1954	-1.4	3.5	15.3	17.9	
1955	6.8	12.4	28.0	13.1	
1956	23.2	18.7	14.9	32.1	Stability: Karamanlis
1957	-1.0	-0.1	-9.1	22.1	
1958	24.0	26.4	22.8	18.9	
1959	23.0	-1.6	-5.2	1.3	
1960	20.2	13.8	8.9	0.0	
1961	17.9	2.5	7.5	26.9	
1962	3.3	12.4	21.3	32.1	
1963	-4.3	10.3	8.4	2.6	
1964	10.3	24.5	23.6	32.8	Instability: Papandreou
1965	16.5	15.4	18.8	24.0	
1966	10.0	11.6	11.7	0.1	Instability

¹ In million drachmas at constant 1958 prices.

² Excluding the value of ships - in million drachmas at constant 1958 prices.

Source: *National Accounts of Greece, 1948-70*, pp. 122-23.

TABLE 6

AGRICULTURAL AND MANUFACTURING ACTIVITY IN GREECE
1948-1966

Year	Agriculture		Manufacturing	
	As Percentage of Gross Domestic Product	Rate of Change Over Previous Year	As Percentage of Gross Domestic Product	Rate of Change Over Previous Year
1948	33		13	
1949	34	3.0	13	0.0
1950	31	-8.8	15	15.0
1951	31	0.0	15	0.0
1952	29	-6.5	14	-6.7
1953	34	17.2	15	7.1
1954	31	-8.8	15	0.0
1955	31	0.0	16	6.7
1956	30	-3.2	16	0.0
1957	31	3.3	16	0.0
1958	28	-9.7	17	6.3
1959	26	-7.1	17	0.0
1960	25	-3.8	17	0.0
1961	27	8.0	16	-5.9
1962	26	-3.7	16	0.0
1963	26	0.0	16	0.0
1964	26	0.0	17	6.3
1965	25	-3.8	17	0.0
1966	24	-4.0	17	0.0

Source: *National Accounts of Greece, 1948-1970.*

Monetary and Other Variables

In general, Greece had a relatively satisfactory record of performance concerning price stability in the postwar period. This was particularly the case during the Karamanlis era, 1955-1963, when the monetary policy of the country was implemented by the rather conservative Bank of Greece, whose announced objective was the establishment and maintenance of monetary stability.

Two other monetary variables, total deposits and net capital transfers to Greece, are presented in Table 7. It seems that total deposits are affected by political instability but that political instability did not affect substantially the upward trend in total deposits. Thus, political instability did not cause harmful negative effects but, at the very worst, only prevented further potential growth of Greek deposits.

TABLE 7

TOTAL DEPOSITS¹ OF INDIVIDUALS AND PRIVATE ENTERPRISES AND NET CAPITAL TRANSFERS TO GREECE FROM ABROAD¹

Year	Total Deposits ²	Percentage Change Over Previous Year	Net Capital Transfers ³	Percentage Change Over Previous Year
1948	377		1,939	
1949	598	58.6	3,025	56.0
1950	711	18.9	4,343	43.6
1951	1,017	43.1	4,353	0.0
1952	1,157	13.8	1,881	-56.8
1953	1,898	64.0	1,219	-35.2
1954 ⁴	2,699	42.2	1,739	42.6
1955	3,330	23.4	1,819	4.7
1956	4,598	38.1	2,115	16.3
1957	7,919	72.2	676	-68.0
1958	10,266	29.6	912	34.9
1959	13,991	36.3	1,886	106.8
1960	16,949	21.1	2,041	8.2
1961	19,668	16.0	2,564	25.6
1962	24,472	24.4	2,450	-4.4
1963	30,160	23.2	1,528	-37.6
1964	34,395	14.0	1,317	-13.8
1965	38,329	11.4	469	-64.4
1966	46,704	21.9	81	-82.7

¹ In million Drachmas.

² Includes sight, savings, time and blocked deposits.

³ In current prices.

⁴ 1954-60 includes the Bank of Greece and the commercial banks of Greece.

Sources: *Statistical Yearbook of Greece*, 1971, p. 324; *Statistical Yearbook of Greece*, 1961, p. 351; *Statistical Yearbook of Greece*, 1954, p. 175.

The effect on net capital transfers to Greece is somewhat different. Political instability, along with other factors, contributed adversely to net capital transfers to Greece for several reasons. First, political troubles at home usually are magnified by the media. Second, businessmen abroad are more cautious during periods of political difficulties and rather optimistic and speculative during periods of political tranquility.

Another variable is the behaviour of tourism as measured by the arrivals of foreigners to Greece (Table 8). The minor political crises of Greece do not seem to have affected the flow of tourists to Greece. In fact, Greek tourism has enjoyed more than its share in the growth of international tourism.

SUMMARY AND CONCLUSIONS

The Greek economy showed considerable strength during the post-war era and despite the political difficulties Greece experienced during 1948-66, which led to the coup d'état in April 1967, the Greek economy at no time either totally collapsed or lost the momentum it achieved under the impact of peace and massive U.S. aid programmes. The Greek people, in spite of their customary politicization, controlled the fate of their economic life sufficiently well to avoid major economic disasters.

Although a number of governments ruled Greece from 1948-66, political chaos did not prevail. Quite possibly Greece could have attained a greater rate of economic advancement if five to six governments had ruled Greece instead of the 28 governments that did in fact hold office.

Expectations have played and still play an important role in economics; in particular, long-run expectations determine to some extent the long-run course of economic development. This study illustrates that the long-run performance of the Greek economy has been satisfactory. The relatively long period of political stability from 1955-1963 appears to have helped establish

TABLE 8
FOREIGN ARRIVALS TO GREECE 1948-1966

Year	Number of Individuals	Percentage Change Over Previous Year
1948	16,475	
1949	22,932	39.2
1950	37,464	63.4
1951	58,238	55.5
1952	76,187	30.8
1953	102,032	33.9
1954	160,486	57.3
1955	195,605	21.9
1956	199,707	2.1
1957	238,289	19.3
1958	257,030	7.9
1959	327,155	27.3
1960	379,959	16.1
1961	471,983	24.2
1962	572,503	21.3
1963	716,126	25.1
1964	737,450	3.0
1965	951,725	29.1
1966	1,105,293	16.1

Source: *Statistical Yearbook of Greece*, 1971, p. 297.

confidence in the economic system and improved its resilience. In addition, the government changes experienced by Greece during the period 1948-1966 did not represent drastic changes in economic ideology but were rather changes in the political personalities involved. Thus, expectations of the Greek people have been optimistic and rather constructive and short-run political difficulties did not destroy the faith of Greeks in their economy.

A factor that complicates the conclusive proof or disproof of the hypothesis that political instability hinders economic development is the existence of time lags in the economic behaviour of the economy's participants. It seems reasonable to contend that businesses as well as consumers do not react spontaneously in face of political instability. The differing durations of the many political crises and the alternative evaluations of the available information cause a whole variety of lagged responses by even those who participate only marginally in the market place. These responses are further delayed by the actual execution of economic plans. Consequently, political instability as a phenomenon initiates economic reactions which are spread over time, mostly with some delays.

It can be concluded from the experiences of Greece that political stability tends to have a beneficial impact on economic development. However, definitional and time lag problems can be serious complicating factors in any attempt to establish a strong causal relationship between political stability and economic development.