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## NOTES

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### *Economic Diplomacy between Great Britain and Greece in the 1930s*

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In the demonology of modern Greek history, foreign interests feature prominently, and foreign economic interests perhaps most prominently of all. The rapacious foreign investor is often credited with considerable powers to influence both economic and political developments in the country. After the Second World War this figure is usually American, before it, British but the mechanisms that are supposed to have operated in both periods share certain common features. For example, that:

- a) foreign capital "dominates" domestic economic activity
- b) foreign investors "exploit" the Greek economy
- c) foreign economic interests are a crucial determinant in shaping the relations of foreign powers with Greece.

This paper will address these issues in the context of Anglo-Greek relations in the 1930s. It falls into three parts: first, some figures. I shall provide rough estimates of the scale of direct foreign investment in Greece in the 1930s and set these in the context of the domestic Greek economy at the time. Then I shall turn to the external *public* debt, in other words foreign lending to the public sector. Here there is no dispute over the magnitudes involved. What is worth examining, on the other hand, is the impact of negotiations over a debt settlement on Anglo-Greek relations at a time when this was perhaps the major diplomatic issue between the two nations. Finally I shall discuss the period from 1936 onwards when, as strategic issues came to the fore, the question of the Greek debt receded into the background.

During the 1920s, Greece's overall foreign indebtedness increased remarkably. The costs of the Asia Minor campaign had necessitated a large increase in the drachma-denominated public debt. After 1923 the costs of reconstruction and resettlement, financed chiefly by loans floated abroad, led to a massive increase in the external debt. At the same time foreign capital, encouraged by the package of stabilization measures brought in after 1927, flowed in-

to the country for investment in a variety of private ventures. By 1932 the per capita foreign debt stood at record levels both in Greek historical terms and when set against debt levels in other Balkan countries.

When the international financial crisis forced Venizelos's Liberal Government to default on its foreign debt in the spring of 1932, the total debt in foreign currency was estimated at around £ 149.4 millions; of this sum £ 29.6 millions represented the public debt payable to bondholders resident in Greece, £ 83 millions the public debt payable to creditors residing abroad, and £ 36.8 millions the non-governmental debt.<sup>1</sup> These figures are drawn from "*Greece and the World Crisis*," an official Greek government publication, which cited an enquiry — so far as I know unpublished — undertaken by the Supreme Economic Council into the question of Greece's foreign indebtedness. They provide the only estimates I have seen of the aggregate amount of Greece's foreign debt at the date of default, and I shall use them as a benchmark when necessary.

Britain was easily the most important supplier of funds. According to the source cited above, she was owed two-thirds of the debt repayable abroad, whilst the United States, which had competed with Britain for public works contracts in the late 1920s was second with about 10% of the total.<sup>2</sup> Whatever the modifications one might make to these figures, in particular to allow for the fact that part of the debt repayable in Britain was owed to non-British nationals, it is quite clear that British capital was invested in Greece on a scale unmatched by that of any other country.

The figure of £ 36.8 millions, cited above for the private debt, included both short- and long-term debts. Deducting purely commercial debts, we are left with a figure of £ 26.4 millions as a probable maximum for longer-term investments interests. This figure, for 1932, chimes well with the estimate of private investments in 1938 of around £ 20 million, which is cited in the 1939 edition of the R.I.I.A.'s *Survey of S. E. Europe*.<sup>3</sup> However the Survey gives no indications of how this figure was reached.

It is no easy matter to set these sums within the context of the domestic Greek economy. There are no estimates of overall investment — either net or gross — in Greece until 1938, and even there we are reliant upon post-war calculations of the value of capital stock. The total capitalization of limited-liability companies operating in Greece might provide a point of comparison except that much foreign capital was not invested in such companies, which were a relative novelty in Greece at that time. The method I have chosen, therefore, is to avoid any comparison of aggregate values, but rather to assess the significance of foreign capital in specific sectors of the economy. The three traditional areas of foreign investment were mining, insurance and ban-

<sup>1</sup> Ministry of Foreign Affairs, *La Grèce et la Crise Mondiale*, (1933) p. 37.

<sup>2</sup> *ibid.*, p. 42.

<sup>3</sup> R.I.I.A., *South-East Europe: A Political and Economic Survey*, (1939) p. 164.

king, to which was added in the 1920s, substantial investment in public utilities.

Foreign companies dominated the field of insurance: of the 131 companies operating in Greece in 1929, only 15 were Greek. Of the remainder 54 were British.<sup>4</sup> Foreign capital predominated here, but the total amounts involved were relatively small. The working capital of all limited-liability insurance companies in 1931 was less than two per cent of the total capital employed by all limited-liability companies in Greece.<sup>5</sup>

Banking and mining attracted rather more substantial sums. In banking French capital was involved in the "Bank of Athens" and the "Bank of the Orient," British capital in the "Ionian Bank" and the "Commercial Bank of the Near East." In all these concerns, foreign share-holders held anything up to half the share capital. A related category comprised banks such as the "Anglo-French Discount Bank," the "Banca Commerciale Italiana e Greca" and the "American Express Company" which were effectively subsidiaries of parent companies abroad.<sup>6</sup>

Although the sums involved were much greater than in insurance, foreign capital was not a major component of the Greek banking system. Greek commercial banking was dominated by the National Bank of Greece, which held about 60% of all bank deposits in the country, and which had, if anything, increased its influence after the creation of a separate central bank, the Bank of Greece, in 1928. Banks with a large foreign shareholding do not appear to have operated differently from purely Greek concerns. Broadly speaking their investment criteria were very similar, avoiding loans to industry, and preferring to maintain liquidity through short-term commercial advances or the purchase of government bonds. The Ionian Bank, in particular, pursued a cautious policy, concentrating upon commercial advances, and its *lack* of influence was what struck one outside observer on the eve of the 1931 crisis. The Bank of Athens, which at one stage aspired to rival the National Bank, did extend loans beyond the commercial sector - but perhaps in consequence suffered worse than most from the crisis. Moreover the French connection with the Bank had weakened over the years and by 1931 was purely nominal.<sup>7</sup>

Mining was the third sector with a long history of foreign investment. The Anglo-Greek Magnesite Company controlled around half the annual output of the mineral; British interests were also involved in the Greek Marble Co. and the Lokris Nickel Co.. French capital was invested in mines and factories at Lavrion. Once again, however, the impact of this investment is

<sup>4</sup> D. STEFANIDES, *Eisroi Xenon Kefalaion*, (1930) p. 295.

<sup>5</sup> *Oikonomiki Epetiris tis Ellados kata to etos 1939*, (1940).

<sup>6</sup> MIRKO LAMER, "Die Wandlungen der Ausländischen Kapitalagen auf dem Balkan," *Weltwirtschaftliches Archiv*, 48 (1938) p. 513.

<sup>7</sup> *Midland Bank Archive*, "Mr. Bunker's Greek Report," May 1931, pp. 12, 16.

not easy to assess. The Lokris Nickel Co., for example, was founded in the optimistic climate of the mid-1920s with a nominal capital of £ 770,000, yet it appears unlikely that the capital actually employed ever approached such sums.<sup>8</sup> Much foreign interest petered out at the stage of research or exploration. After exchange controls were introduced in 1932, investment in mining — and indeed elsewhere too — became progressively less attractive. By 1939 under one-third of the entire labour force in mining worked in enterprises financed with foreign capital, and of these the Lavrion works and the Anglo-Greek Magnesite Company employed roughly half.<sup>9</sup> On the eve of the war Greek enterprises had therefore assumed a major role in the extractive sector overall. They relied upon imported technology but they were largely backed up by indigenous capital. Apart from a host of smaller operations, they included major firms such as the various mines of Alexandros Apostolides and Kanellopoulos's "Greek Chemical and Fertiliser Co."

The mining industry, which tends to be an attractive area for foreign investors, was not as important to the Greek economy as it was elsewhere in the Balkans. Minerals were a minor source of export earnings and a small part of the national income. Evelpidis's estimates of Greek national income over the decade 1927-1936 indicate that extractive industries contributed less than 1% to the national income, compared with 31.4% for agriculture and 15.6% for manufacturing and construction. Later estimates, made by Mousmoutis in 1950 for the national income in 1938, gave a percentage of 2% for a category comprising mines and fishing, as against 19% for manufacturing and construction and 38% for agriculture and livestock. The figures may be disputed but hardly, I think, the general conclusions to be drawn from them, that the mining sector, and — a fortiori — foreign investment in mining, was not central to the Greek economy.<sup>10</sup>

What is striking is the absence of foreign investment in Greek manufacturing. In 1930, when the inflow of foreign funds was at its peak, Dimitrios Stefanides, author of an excellent study on the subject, wrote that "in Greek industry the place of foreign capital continues to be completely negligible."<sup>11</sup> Nor was there any change in this state of affairs thereafter. The suspicious attitude of foreign (and domestic) investors towards Greek industry was exemplified by the behaviour of the Hellenic and General Trust.

This had been set up in 1927 by Hambro's Bank and the National Bank of Greece as a holding company to channel funds into Greek industrial concerns. Despite this avowed aim, the trust's managers proved wary of industrial investments and failed for a long time to make use even of the initial

<sup>8</sup> LAMER, *op. cit.*, p. 514; Stefanides, *op. cit.*, p. 294.

<sup>9</sup> *Statistiki tis metalleftikis viomikianias tis Ellados 1939*, (1944) pp. 32-41.

<sup>10</sup> CH. EVELPIDES, *Theoria kai Praxis tis Agrotikis Politikis kai Oikonomias*, (1939) p. 132; N. MOUSMOUTIS, *To Ethnikon Eisodima* (1950) p. 27.

<sup>11</sup> STEFANIDES, *op. cit.*, p. 297.

paid-up capital of £ 1/2 million. Initially it had been predicted that funds would be made available up to the sum of £ 6 millions, but this sum was never approached. At the first General Meeting it was announced that the managers had decided to diversify the company's portfolio to include investments outside Greece. One year later the Chairman explained that Greek industry still suffered from excessive competition, and required a period of rationalization before the company could invest there with confidence. In 1931 it was announced that the company would limit its commitments in Greece to no more than 60% of its available capital. Of its investments in Greece, a large proportion was held in the form of government bonds. Faced with heavy losses and arrears suffered in the early 1930s, the Trust appears to have been disinclined to pursue an active role in providing industrial credit. Loans to industry were gradually reduced until by 1939 they totalled only £ 330,000 - less than one-third of the employed capital. The shares of the trust remained heavily discounted on the London Stock Exchange throughout the 1930s.

The Trust's portfolio of industrial investments, which never came to more than 240 million drs. was a minor sum compared with 2.7 billion drs. which was the total employed capital of the *main* industrial concerns in Greece on the eve of the crisis. Given the structure of Greek manufacturing — with its predominance of small firms — the overall investment in industry would certainly have been much higher.<sup>12</sup>

The last, and most substantial area of foreign investment was in public utilities. Apart from the various railway companies which had raised capital in London and Paris before 1914, urban transport and electrical power schemes attracted foreign funds, especially in the 1920s. German capital underlay the Siemens contract for the construction of a telephone network; a Belgian capital held concessions in Thessaloniki; French and Italian capital was invested in electrical power companies. But the single most important group was the British-backed "Power and Traction Finance Co." This was the largest British investment interest in the country, with the concession to run the electricity supply and transport services of the capital. Although initially it had been part-owned by a consortium of Greek banks, these had been largely bought out in 1930 by their largest original partner, Prudential Assurance, together with a new associate, the Whitehall Securities Corporation. In 1939 the total value of the investment amounted to £ 5 1/2 million.<sup>13</sup>

For "Power and Traction," as for most similar concerns operating in Greece with foreign capital, the 1930s were a difficult period. In particular they were affected by the provisions of the Varvaressos Agreement of 1932

<sup>12</sup> General Meeting reports in *Near East and India* (later *Great Britain and the East*), various issues, 1929-39; *Archives of the National Bank of Greece*, 104, N43, 2/259 March 1940.

<sup>13</sup> STEFANIDES, op. cit., pp. 280-86; F0371/67109 R10692/3051/19 August 21947.

which included a clause that "foreign holders of long-term non-governmental obligations should not be granted better treatment in the transfer of exchange than the creditors of the Greek Government."<sup>14</sup> Consequently the repatriation of capital could only proceed at the snail's pace which generally characterised the government's repayment of its debt obligations. Investors found that the sums repatriated were generally insufficient to pay even a moderate return. Until 1937 the dividends on the ordinary shares of such companies as the Hellenic and General, the Ionian Bank, the Commercial Bank of the Near East and the Lake Copais Co. fluctuated between zero and three per cent. Only for the last three years of the decade was there a slight improvement.

All this is a far cry from the picture of the foreign investor sucking Greece dry. British investors — and, we may surmise, those of other countries too — did not regard the prospect of direct investment in Greece with much enthusiasm, at any rate once the brief euphoria of the 1920s had worn off. British Embassy officials, for their part, had tried before 1931 to emphasize the risks of over-lending. The commercial attaché reiterated his concern in the late 1920s at the excessive inflow of foreign funds.<sup>15</sup> Once the crisis broke, Embassy staff certainly interpreted their duties as including the defence of British economic interests. However they were for most of the period unable to negotiate a relaxation of exchange controls. Under Metaxas a number of agreements were reached, notably with the HGT and the Power and Traction Finance Co., but it is not clear whether this was due to increased diplomatic pressure or to increased pressure from interested internal parties, such as the national Bank of Greece.

For the British Foreign Office, of course, the problems of private investors were of less significance than the question of the public debt.

Republican governments, especially Venizelos's Liberal Government of 1928-1932, borrowed heavily in western capital markets and by 1931 Greece's per capita external public debt was the highest in the Balkans. After sterling left the gold standard in September 1931, Venizelos tried vainly to keep the drachma at par. However the financial crisis spread rapidly to Greece, and in April 1932 the drachma was allowed to depreciate, exchange controls were introduced and the Government announced its inability to meet its external commitments. Greece had effectively defaulted on its foreign debt and for the rest of the decade Anglo-Greek relations were bedevilled by attempts to reach a settlement.

Resolution of the dispute was complicated by an asymmetry between debtor and creditor: the Greek Government spoke for the debtor, to be sure, but who spoke for the creditors? Was it the Council of Foreign Bondholders, the League Loans Committee, the International Financial Commission or

<sup>14</sup> *Near East and India*, April 13, 1933, pp. 306-7.

<sup>15</sup> STEFANIDES, *op. cit.*, p. 299.

perhaps the Financial Committee of the League of Nations? And where did the Treasury, the Foreign Office and the Bank of England enter the picture? And I have of course only dealt with the *British* creditors!

The Greek authorities faced two related economic problems — one fiscal, the other monetary. Both government revenues and foreign exchange reserves had dried up during the crisis. Initially the exchange shortage had been the main justification for abandoning the gold standard. Ironically depreciation of the drachma had been urged on a reluctant Venizelos by the Bank of England as one way of preserving Greece's solvency. But the rapid fall of the currency effectively doubled the drachma cost of servicing the foreign debt at a time when government revenues were shrinking. In the words of one official at the British Treasury, the transfer shortage had simply been replaced with "a budgetary problem of the first magnitude." At this point the only incentive the creditor nations could have offered Greece in return for continuing to service her debt, was a further loan. This was in fact what Venizelos had been requesting. But when he met Sir John Simon, the British Foreign Minister at Geneva in the spring the latter stressed the unlikelihood of such assistance being provided. The ground was cut from under Venizelos's feet and his place was taken by men with fewer illusions about the health of western money markets.<sup>16</sup>

The structure of foreign control and supervision of Greek public finance crumbled with startling rapidity. The stock of the League of Nations slumped in Athens as it became apparent that it was no longer a reliable sponsor of foreign funds. The Populist Party Government resurrected plans to abolish the independence of the central bank, which it regarded as a child of the League. When it was suggested that Foreign Minister Maximos consult Geneva before taking such steps, he retorted that "he would not ask that Committee which in his opinion was largely responsible for the present mess in Central Europe."<sup>17</sup> In fact the central bank remained intact and the League's Financial Committee maintained its interest in the Greek economy, but its authority had been circumscribed.

The demise of the International Financial Commission was still more dramatic. Established in 1898 to collect certain assigned revenues for the service of foreign loans issued with its imprimatur, its sweeping powers were widely resented in Greece. Even before the crisis broke the British adviser to the Bank of Greece had warned a senior Treasury official of this resentment, concluding that "...the methods of 1898 are no longer applicable in the conditions of 1931.. If the Greek State is bankrupted, all (the IFC) will be left with are paper drachmas."<sup>18</sup> This was an accurate forecast.

<sup>16</sup> FO371 (henceforth omitted) 15960 C2664/324 April 2, 1932; 15961 C3043/324 April 13, 1932.

<sup>17</sup> *Archive of Emmanouil Tsouderos*, 46/163 November 26, 1932.

<sup>18</sup> *Ibid.*, 14/15 March 11, 1931.

After the declaration of default, drachma balances accumulated in the IFC's account at the Bank of Greece. By the middle of May the Greek Treasury had borrowed to the legal limit from the Bank of Greece and it was clear that in the face of the continuing fiscal crisis the Bank would come under strong political pressure either to expropriate the IFC's funds or else simply to print money to advance to the Government instead. Either procedure would expose the weakness of the IFC's position. In public the British representative on the Commission took a stiff line, insisting that the Greek authorities provide the necessary foreign exchange for the full debt service; in private, however, he urged London to help bring about a quick settlement.<sup>19</sup>

The attitude in Whitehall was ambiguous. The initial Treasury reaction was one of resignation, taking the view that there was little hope of avoiding a "total or partial default on our foreign debt." "Protests are not going to do any good," was the comment of one official.<sup>20</sup> At the same time they insisted on maintaining the fiction that the whole business had nothing to do with them, and was solely the concern of the Greek Government and the bondholders. Thus the Treasury response to the IFC's urgent requests for authorisation to cooperate with the Greek authorities was simply to urge the latter to come to London and reopen negotiations directly with representatives of the foreign bondholders. Yet the Treasury was in close communication with bondholders' organisations, and as subsequent events were to show, debt negotiations did involve creditor governments. By the time a Greek delegation did visit London, the one weapon the IFC possessed — its frozen drachma revenues — had been blunted as the Bank of Greece increased its lending to the Greek State in line with the increase in IFC funds. Of course this meant that the Government and the Bank were conniving in a violation of the Bank's statutes. But the Government was in desperate straits and the Bank was proving its worth to an administration inclined to doubt it.

The Foreign Office were even gloomier than the Treasury. Before the first round of talks had got underway in the autumn of 1932 the Foreign Office was advising the bondholders to accept the Government's offer of 25% of the interest due lest "the whole system of assigned revenues break down." It did not in fact break down, and the bondholders eventually accepted an offer of 30% — but the Foreign Office were always conscious of the domestic political ramifications of the debt question, and tended to take a softer line than either the bondholders or the British Treasury who tended increasingly to add their weight to the bondholders' claims.<sup>21</sup>

But for so long as Britain lacked a substantial *quid pro quo*, negotiations were less influenced by foreign than by domestic Greek factors. The first round of talks, which culminated in the Varvaressos Agreement, was over-

<sup>19</sup> 15960 C2442/324 March 22, 1932; 15963 C5135, 5970/324 June 10-16, 1932.

<sup>20</sup> 15961 C3360/324 April 25, 1932.

<sup>21</sup> 15964 C6956/324 August 16, 1932.

shadowed by the creditors' desire to reach a settlement — and one that would not weaken Venizelos — before the September general election. The second round, in 1933-34 was marked by the Tsaldaris Government's fear of the political consequences of conceding more than its predecessor had done. Tsaldaris himself was forced to try to explain away the unmistakable signs of economic recovery with the argument that record cereal harvests actually made things more difficult for the Government by reducing revenues from cereal import tariffs and increasing the cost of supporting domestic wheat farmers. This second round only produced results when the Tsaldaris Government began to come under pressure from *Greek* holders of the foreign debt to reach an agreement.

One should not fail to mention that reduced debt payments implied windfall budgetary gains which only a strong government would have foregone. That a weak government, under continual pressure from its own right-wing, should forego them in exchange for nothing more than British approbation and domestic criticism was scarcely likely.

These gains were in fact extremely large. Post-default budgets made cut-backs almost entirely at the bond-holders' expense. Expenditure on the service of the external debt fell from 23% of total effective expenditure in the 1931/32 budget to 9% in 1933/34 and 8% in the late 1930s. In just the first two years after default, the Greek Treasury saved 8½ billion drachmas — equivalent to total spending in 1933/34 — by not paying the full service due. Of course, not all this amount represented "real savings" in the sense of funds available to be spent elsewhere in the economy. Any estimate of such an amount must be arbitrary. I have calculated it on the basis of two alternative assumptions: a) that the percentage of total effective expenditure which had been devoted to the external debt service in 1931/32 had been spent in successive budgets, b) alternatively, that the savings involved comprised the non-transferred part of the external debt interest entered in the budget accounts after 1932/33. Both procedures lead to similar conclusions, namely that after default the savings to the Greek budget amounted annually to over 1 billion drs. These sums proved sufficient to maintain expenditure on most other items at pre-default levels — at least in nominal terms. It is difficult to disagree with the conclusions of a League Loans Committee report, issued in 1938, that "Greek budget figures show a healthy underlying condition and a growing measure of prosperity... but the external debt has had little share of expanding revenues."<sup>22</sup>

There was also the transfer aspect to consider. The Greek authorities could argue that even if they possessed sufficient drachma funds they lacked the requisite foreign exchange to make the transfers. This argument came to

<sup>22</sup> 22358 R1265/169 February 11, 1938 for further details of these calculations see my D. Phil. thesis 'Towards Autarchy: the recovery from crisis in Greece, 1929-1936', Oxford, 1987.

the fore from 1934 onwards. As early as 1932 Venizelos had suggested that the British increase their purchases of Greek tobacco to provide exchange for the debt service. George Pasmazoglu, first Minister for the National Economy, then Finance Minister in Populist Party administrations, reverted to this line. He insisted that any large transfer of exchange would endanger the drachma; the only way to increase Greece's annual payments to her foreign creditors would be for those countries to increase their imports of Greek goods. Sir Sydney Waterlow, British Ambassador to Greece, seems to have been persuaded by these arguments, but Foreign Office overtures to British cigarette manufacturers to purchase Greek tobacco, fell on deaf ears. A signal lack of success attended these efforts right up to 1939. The real problem was that such a resolution of the debt issue would have required a degree of State involvement in commerce which the British were unwilling to countenance. When Pasmazoglu visited London in February 1935, negotiations with the bondholders were broken off without result and the Greek Government proposed unilaterally to pay the same amount as it had done the previous year.

It is not in fact clear that Pasmazoglu's arguments about the transfer problem were entirely justified. The position of the Bank of Greece's reserves had improved considerably in the three years following the crisis and although the political turbulence of 1935 and early 1936 precipitated a flight of capital, the Bank's exchange holdings still stood at healthy levels. The transfer of debt interest in 1935 only accounted for about 16% of the Bank's total sales of exchange in 1935, compared with around 30% in the period 1929-32. The real causes of the run-down in the Bank's reserves were not so much the debt service as speculative flows out of the country and increased wheat imports.<sup>23</sup>

Of course a major difference between 1935 and the pre-default years was that in the earlier period the large outflow of exchange to service the foreign debt was offset by inflows from the proceeds of new loans. The *net* outflow on account of the debt was small, and in some years indeed negative i.e. there was a net *inflow* of exchange. But by 1935 inflows from new loans were no longer forthcoming. In a sense what Pasmazoglu was doing was to try to restore the pre-1932 pattern but through export earnings rather than loans.

Pasmazoglu's intransigence had created a poor impression in London. It was also criticised in Greece, where a number of factors had encouraged a more conciliatory mood. In the autumn of 1934, the parliamentary budget committee, drawn entirely from the governing party, had produced a report urging a rehabilitation of Greek credit abroad to ease the country's need for foreign capital. This call was echoed in the Greek press during 1935. By the end of the year it was apparent that a shortage of domestic loan capital was slowing down the economic recovery. Commercial banks had expanded their

<sup>23</sup> Annual Reports of the Governor of the Bank of Greece, various; 20387 R5208/39 August 27, 1936.

medium and long-term lending to record levels and found liquidity levels running dangerously low. At the same time there was public concern at the credits which Greece was amassing in blocked accounts through the Greco-German clearing agreement. Heavy German purchases of Greek tobacco meant that she was buying from Greece more than she was selling to her. Greece's credit balance was denominated in reichsmarks, and the Bank of Greece stood to bear heavy losses in the event that the reichsmark was devalued. The German Finance Minister, Hjalmar Schacht, had himself on a visit to Athens warned his hosts to reduce this trade imbalance. Thus on the Greek side there were cogent reasons for attempting to normalise financial and commercial relations with Britain.<sup>24</sup>

1936 marked a shift in attitudes. As Italy now posed a serious military threat in the Mediterranean and Germany seemed set to consolidate her economic hold over south-eastern Europe, strategic considerations came to outweigh financial ones in relations between Britain and Greece. Even before Metaxas came to power British Foreign Office figures voiced the need to strengthen ties with Greece and to regain some of the ground that they believed had been lost to Germany. In January, 1936 Assistant Under-Secretary Orme Sargent wrote that "... the F.O. attach considerable importance to the tightening up of relations between this country and Greece. Both politically and strategically Greece may be of considerable importance to us in the coming years. It is highly desirable that our relations be as friendly as possible..." He went on, "... one of the most effective ways of contributing to this is by increasing the volume of trade between the two countries".<sup>25</sup>

This emphasis on the political benefits of commerce permeated Foreign Office thinking right up to 1939. Unfortunately it was to prove an unrewarding strategy since the F.O. rapidly found they had little power to affect the flow of trade between the two countries. The Board of Trade opposed suggestions to give Greek goods preferential treatment on entry into Britain. The large tobacco companies cold-shouldered persistent official entreaties to increase their purchases of Greek tobacco. For their part the Greek Ministry for the national Economy still preferred to import goods under clearing agreements rather than to pay for them with exchange as they had to do for British goods.

On the Greek side too there was a desire for closer ties with Britain. Neither Metaxas nor the British were keen on the prospect of Greece financing her rearmament effort with German credits. The British began to give serious consideration to Greek requests for non-commercial credits. It was in these circumstances that a settlement of the debt was reached in August 1936 for the years 1935/36 and 1936/37. The following year the Greek authorities

<sup>24</sup> 18397 R4450/79 August 3, 1934; 20388 R7584/87 December 18, 1936.

<sup>25</sup> 20388 R398/72 January 23, 1936.

settled outstanding disputes with the Hellenic and General Trust and the Power and Traction Finance Co.<sup>26</sup>

But as Metaxas and the British Foreign Office sought an Anglo-Greek rapprochement, there were two major obstacles.

The first were the bondholders, who insisted on a figure of 65% for the percentage of interest to be paid them in 1937/38 — a figure which Metaxas found unacceptable. The Foreign Office sought to persuade the Council of Foreign Bondholders to reduce its demands, but to no avail, and in the autumn of 1937 negotiations between the bondholders and the Greek Government broke down. British bondholders voiced criticisms of official inactivity and demanded greater support from Whitehall in the future. This produced a temporary hardening in Treasury attitudes who, to shield themselves from further criticism, henceforth attempted to stipulate that any assistance to Greece be made contingent upon a prior resolution of the debt question.

The second major obstacle was Whitehall itself. The geo-political struggle with Germany for south-eastern Europe had to take second place to bureaucratic skirmishes within the British policy-making establishment. The drive to increase British imports of Greek tobacco was blocked by the Board of Trade, anxious about the impact on commercial relations with the Dominions and the United States; talk of raising new credits was blocked by the Treasury; the supply of military equipment was ruled out on the grounds that it was required more urgently at home. At the end of 1937 Metaxas had dismissed his Finance Minister, Zavitsianos, for making public the extent to which Greek rearmament was to be financed by German credits. Metaxas feared the effect on British opinion.<sup>27</sup> On the other hand, if the British could not come up with the goods themselves, then Greece might well be forced to rely on German weaponry.

This prospect led the Foreign Office to try to break the bureaucratic deadlock. In May 1938 the Foreign Minister, Lord Halifax, suggested setting up an interdepartmental committee to work on the extension of British influence in the Balkans as a counter to German economic penetration. In a briefing memorandum, the causes of the current impasse were lucidly exposed: "... our economic relations with the countries in central and south-eastern Europe are administered from this end by various Departments, namely the Treasury, the Board of Trade, the Export Credits Guarantee Dept. and the Dept. of Overseas Trade. The Foreign Office's interests are primarily political, those of the other Departments concerned are wholly economic and commercial. While the Foreign Office tend to regard economics and finance as a means to a political end, the other Departments are naturally bound to

<sup>26</sup> J. KOLIOPOULOS, *Greece and the British Connection, 1935-41* (1977) pp. 63-67.

<sup>27</sup> D. KRITSIKIS, "La Grèce entre l'Angleterre et l'Allemagne de 1936," *Revue Historique*, 238 (1967) pp. 90-103.

judge them from a different point of view. A deadlock is apt to be reached".<sup>28</sup>

Halifax's suggestion met with a frosty reception. In Cabinet the Prime Minister, Neville Chamberlain, doubted whether the effort to counter Germany was worthwhile. Britain might find the German threat exaggerated by smaller countries as a way of extracting further aid. Moreover he questioned whether improvements in the German economy as a result of their dominance in the Balkans were a cause for alarm. Perhaps they were to be welcomed. Given such attitudes it is remarkable that the Committee was formed at all and unremarkable that it had so little effect.<sup>29</sup>

The "Interdepartmental Committee on Economic Assistance to Central and South-east Europe" was established in June 1938. It was, both in name and in operation a typically bureaucratic counter to the Nazi menace. British prejudices against state involvement in trade and the government's reluctance to offend Germany both made effective action by the Committee unlikely and its shortcomings were harshly exposed in its treatment of policy towards Greece.

Greece, in fact, was regarded as one of the Committee's most urgent priorities. In the spring Metaxas and his Finance Minister Apostolides had repeated requests for some form of alliance with Britain. They argued that by reducing the military threat to Greece, such an arrangement would permit rearmament spending to be cut back and open a way to a fresh debt settlement. These calls were redoubled after the announcement of British assistance to Turkey. At the Foreign Office, it was felt that it was now "politically imperative" to do something for Greece and since political commitments were ruled out, for fear of their effect on Italy, economic assistance was the alternative.<sup>30</sup>

Foreign Office officials on the Committee, stressed Greece's strategic importance to British positions in the Eastern Mediterranean and argued that "... the country to which our assistance should first be offered is Greece".<sup>31</sup> Once again, increasing Greek tobacco exports was advocated as the solution to the debt dispute. The Committee accepted these arguments, and looked to renewed pressure on the tobacco companies to bring results, despite the fact that they had been resisting official entreaties for several years. Lord Dulverton, the chairman of Imperial Tobacco was no more amenable when approached by Chamberlain himself.

<sup>28</sup> 22342 R5142/94/67 May 23, 1938.

<sup>29</sup> 22342 R5362/94/67 June 1, 1938; also, D. KAISER, *Economic Diplomacy and the Origins of the Second World War*, (1980) pp. 247-259.

<sup>30</sup> 22362 R5125, R5460, R8238/361/19 May 19, June 7, October 13, 1938.

<sup>31</sup> 22342 R5558/94/67 June 14, 1938; 22343 R6720, R6476/94/67 July 21, August 1, 1938.

It was ironic that while the F.O.'s initiatives to provide assistance to Greece should remain blocked, its assessment of Greece's strategic value should be receiving increasing support. Towards the end of 1938 the Chiefs of Staff revised the Armaments Priority List, which ranked in order of strategic importance those countries which required British arms. When the List had last been drawn up, in May 1937, Greece was halfway down it; this time she had been raised to fifth position in view of her importance in any Anglo-Italian conflict in the Mediterranean. Yet in December the Inter-Departmental Committee gloomily reported a shortage of suitable armaments which could be made available to Greece. Little wonder that Metaxas was reported to have "practically lost all hope of British financial and economic help for Greece" and to have concluded that "... Great Britain did not regard Greek help as a vitally important factor in her Mediterranean policy".<sup>32</sup>

We should recall that in the winter of 1938-39 there seemed a real chance of a Franco-Italian conflict in the Mediterranean. The threat of an Italian strike against Corfu gave urgency to Metaxas's diplomatic efforts. Aware of the threat, conscious of the barrenness of their efforts so far, Foreign Office officials for the first time seriously considered providing a guarantee to Greece. Orme Sargent wrote... "(if it is) impossible to give Greece any such commercial or financial assistance as will really enable her to organise her economic structure in such a way as to resist German pressure (and to) supply arms to resist Italian pressure.. then we will be faced with the dilemma of either abandoning Greece to her fate or else of giving her a direct political guarantee in order to give her courage to resist German and Italian pressure. But such a guarantee would clearly be an onerous and possibly highly inconvenient and embarrassing commitment in present circumstances and one which we ought only to contemplate in the last resort."<sup>33</sup>

Within the Foreign Office there was considerable irritation with the bondholders, whose uncompromising attitude officials believed jeopardised their strategy of cementing Anglo-Greek political relations without providing political commitments. The gap between the bondholders' insistence on 65% interest and Metaxas's determination not to concede more than 50% could not be bridged, though there was no lack of efforts to try. In the F.O. Southern Department, Archibald Ross, noted prophetically in January 1939, "no doubt when things really become serious we shall sweep away financial and economic objections and follow only the dictates of our political interests. At present we seem forced to let the objections hamper us, so that in the end when the time comes, our action will be by so much the more drastic and hazardous".<sup>34</sup>

<sup>32</sup> 22345 R9009, R9893, R9958/94/67 November 9-26; December 13-16, 1938.

<sup>33</sup> 22345 R10352/94/67 December 31, 1938.

<sup>34</sup> 23773 R670/284 January 24, 1939.

There was equal irritation with the Treasury who continually vetoed attempts to recognise the debt question as an issue to be settled between governments. The Foreign Office reacted sharply to Treasury accusations that they were being weak in offering credits to Greece before agreement over the debt had been reached. Sargent wrote: "... if we decide to give credits to facilitate the purchase by the Greek Govt, of war material in this country, we are doing so... solely because we consider for political and strategic reasons that it is desirable that Greece should be properly and adequately armed. Once we have accepted this political and strategic consideration as valid, it obviously remains valid even if the Greek Govt. is in default on its external debt..."<sup>35</sup>

Foreign Office staff were increasingly frustrated in their attempts to shape a more incisive policy towards Greece. Sargent now advocated the disbandment of the Inter-Departmental Committee, which had, in his words, "shown itself more capable in obstruction than in construction..."<sup>36</sup> In a new attempt to inject greater dynamism into policy-making, he proposed entrusting the Committee's tasks to one man, Sir Frederick Leith-Ross, the Government's Chief Economic Adviser. The Foreign Office badly needed allies within Whitehall since in the Cabinet both the Chancellor of the Exchequer and the Prime Minister opposed Halifax's rather feebly mooted proposals for greater governmental involvement in both the tobacco and the debt problems.<sup>37</sup>

By the spring of 1939 it had also become evident that the mere provision of armaments credits, which the Foreign Office had fought hard to secure, was but a small step along the road to smoother Anglo-Greek relations. As the Treasury had feared, news about the British credits had led Metaxas to take an even firmer stand vis-à-vis the bondholders. He now informed the British Ambassador that no debt settlement would be possible without a prior British commitment to purchase Greek exports to a value of over £ 1 million. Greece, he claimed, was doing Britain a favour by accepting the credits, and they could not help solve the underlying commercial and financial problem. As Waterlow telegraphed back from Athens: "... the crux of the position is that the bondholders cannot agree to making negotiations for a debt settlement in any way dependent on tobacco purchases while the Greek Government refuse to discuss a debt settlement on any higher basis than 50% unless some previous assurance as regards tobacco purchase has been given..."<sup>38</sup>

This deadlock was not so much broken as circumvented by the news that Italy had invaded Albania. Rumours of Italian plans to attack Corfu were transmitted from Athens to London. The British Cabinet were jerked out of

<sup>35</sup> 23760 R184/31 January, 1939.

<sup>36</sup> 23736 R706/21/67 January 30, 1939.

<sup>37</sup> FP36 (37) February 8, 1939.

<sup>38</sup> 23773 R1557/284 March 7, 1939.

their apathy. The following morning, April 10, the Cabinet approved the idea of "reinforcing Greece and Turkey against possible Italian expansion or aggression." Ironically, the means chosen, a unilateral British guarantee, was preferred as the option least likely to entangle Britain with Greece or to offend Italian sensibilities. Metaxas too feared the Italian response to the news, and insisted, somewhat duplicitously, that it be made clear that the guarantee had been unsolicited. So cavalierly had the decision been made that the British were not even clear whether they wanted Greece as an ally or neutral if war broke out.<sup>39</sup>

The British guarantee signalled the failure of the Foreign Office's abortive attempt at economic diplomacy. This had originally been intended as a counter to German economic penetration. One month before the guarantee, a Foreign Office memo had recognised that economic assistance alone would be insufficient to enable Greece to resist a sudden threat by Greece or Italy. Unfortunately the British assessment of Greece's strategic worth was not coordinated with operational planning or the provision of materiel. Coastal artillery, for example, according to the War Office in January, would not be available in under five or six years, nor was there any suitable second-hand stock.<sup>40</sup> The guarantee, like the economic strategy before it, was an attempt to secure Greek loyalties at a minimal cost.

The overriding strategic imperative which underlay the April guarantee of course removed the last remaining cards from the bondholders' hand. Even the Treasury now abandoned them. Leith-Ross returned from a visit to Athens in May converted to the view that they should take what they were offered. The Council of Foreign Bondholders held out for a little longer, but when a settlement was finally reached a few months later as part of the Anglo-Greek War Trade Agreement, they received considerably less than even the 50% Metaxas had offered in the spring.

This was a fitting end to what — for the foreign investor in Greece — had been a sorry decade. When it opened foreign funds had been flooding into Greece. Direct foreign investment was prominent in a number of sectors, but not in either of the two most important and fastest-growing — areas import-substituting agriculture and manufacturing industry. Much more substantial, and more significant in diplomatic terms, was the foreign capital borrowed by the Greek State. What followed has some contemporary relevance. Western banks over-exposed in the Third World apparently console themselves with the thought that countries cannot default. But if countries cannot default, states can — and in the early 1930s, faced with massive fiscal and monetary disruption, there was little incentive for them not to do so. Once Greece

<sup>39</sup> FP36 (41) April 10, 1939; 23741 R2845/661/67 April 15, 1939; 23761 R2667/31 April 13, 1939.

<sup>40</sup> 23736 R707/21/67 January 31, 1939.

had defaulted her creditors were virtually powerless. What percentage of their money they got back depended partly on domestic political factors within Greece and partly on the amount of pressure the British Government was prepared to apply. Lack of leverage meant that this pressure was only moderate at the best of times. And when British national interests — in this case strategic ones — demanded smoother relations with Greece, the bondholders were pushed to one side and the debt dispute became a minor irritant rather than a major obstacle to a rather uncertain rapprochement.

NB: All Foreign Office files Southern Department/Greece (code no. 19) unless otherwise stated.

