

An interpretation of post-war stabilization policies in the Greek Economy: 1953-1981

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1. Introduction

The debate on post-war economic policies applied in Greece has been largely based on arguments of political differences among the existing ideological streams and has not been broadened into the sphere of economic analysis. Although it is generally accepted that the monetary and fiscal policies which were in effect in the period under examination have significantly influenced the major macroeconomic indicators and supported the transformation of the structure of the economy, the existing bibliography lacks studies that analyze and explain the economic performance of the Greek economy in the context of an open economy. Recently, Kondonassis *et al* (1983), investigating whether political stability hindered economic development in Greece, supported the view that political stability had a beneficial effect on economic development. Our analysis differs from the above, not only in terms of investigating the performance of the economy, but also in its emphasis on stabilization policies and their implications in the open economy of Greece.

This article surveys the conduct of stabilization policies in the Greek economy for the period 1953-1981. It is divided into four parts. The first part includes the trends in the major macroeconomic aggregates such as prices, output and balance of payments while the second part considers the policies applied since 1953. The third part comments on the implications of the adopted policies and criticizes the measures taken by the competent authorities. Finally, general conclusions are drawn about the main policy issues and the structure of the Greek economy.

2. Major macroeconomic aggregates: an overview

The most important macroeconomic aggregates, in the sense that they indicate the performance of the economy, can be regarded as the growth rate of output, the inflation rate and the major balance of payments items, while the

* I am grateful to G. Zis for his comments on an earlier draft. All errors and omissions are, of course, my own.

variables which indicate the behaviour of policy makers can be regarded as expenditure, such as government expenditure, the tax to GNP ratio, domestic credit expansion and the growth of money supply. As far as the balance of payments items are concerned, the variable that most closely approximates those discussed in theories of the balance of payments is the sum of Current Account and Capital Account in the Official Greek Statistics and is defined as Total Currency Flow in this study.

As an indicator for the domestic inflation rate, the rate of change in the domestic consumer price index is used. World inflation for the period 1953-1981 is calculated from OECD data. It is based on the rate of change of the consumer price index of seven major industrial countries.

The data for the gross national product, private and government expenditure are taken from the Greek Official National Accounts.

The money supply is defined in terms of M1 at the end of the period. The level of loans (L) is defined as the difference between the official reserves and minus integral of total currency flows. The data are obtained from various issues of the Bank of Greece Bulletin. Finally, domestic credit is defined as $M1-(OR-L)$.

Figure 1 compares the inflation rates of Greece with seven other industrial countries. It can be observed that during the period 1953-1973 there is a tendency for convergence among the inflation rates. This convergence tends to vanish after 1971. Since then, we can distinguish the inflation-prone countries (Greece, Italy, U.K.) and the countries which have experienced relatively lower inflation rates (U.S.A., Japan, France, and West Germany). Therefore, as long as the Bretton Woods System was in operation, the inflation rates among the participating countries had the tendency to converge. The disintegration of the system, combined with divergent national reactions and oil price rises in 1973 and 1978, led to the divergence of countries' inflation rates. The Greek economy has experienced high inflation rates due to the "easy money" policies pursued during this period. This is illustrated in Figure 2 where it is shown that during the 'seventies, the inflation rate kept pace with the rate of expansion of the money supply. Figure 3 illustrates the change in Total Currency Flow (TCF), and in "official reserves" (OR) over the sample period. The comparison reveals a marked contrast in the periods before and after the Seventies with fluctuations in both, but especially in reserves (TCF) which became larger in the seventies. Figure 4 illustrates the accumulated value of total currency flows and the level of official reserves. With regard to the components of the balance of payments, Figure 5 illustrates the current account and net capital flows. This shows the structural current account deficit for the economy and it reveals that capital inflows were offsetting the current account deficits. It also shows that the gap widens after 1972 when price controls, import restrictions and quotas for a number of goods were either relaxed or abolished. The inflow of capital is required for financing gross capital formation in the economy. Therefore, it takes the form of loans from

abroad by the banking and industrial sectors. Another significant source of capital inflows for the Greek economy is the emigrant labour force which invests its savings in the domestic economy. Figure 6 illustrates the three most important items in the balance of payments account (CAP), the current account (CUR), and the official reserves (OR) account. Figure 7 also includes the inflation rate, and shows that the high inflation rate after 1973 was accompanied by large current account deficits and stagnant capital and official reserve inflows. This was mainly due to the relaxation of import quotas and customs duties for a number of goods. It was also due to the over-valued drachma. Figure 8 shows that, for the period 1953-1971, there is a trade-off between official reserves and domestic credit expansion. However, this trade-off ceases to exist after 1972, while domestic credit expansion follows a similar pattern with the domestic inflation rate. Finally, Figure 9 shows the level of GNP output of the economy, which grows fast until 1977, and then declines.

3. The historical development of fiscal and monetary policies since 1953

1. After Devaluation

World War II was followed by a civil war which ended in 1949. However, the internal political upheavals lasted until 1952, when a strong government took power. The prime task of the government was to reconstruct the economy within a stable environment. It had to lessen the destabilizing uncertainty by introducing sound policies which could curb galloping inflation, secure the development of the economy and attain a balance of payments equilibrium. The first step towards stability was taken on 9 April 1953 by the devaluation of the drachma, with the parity of the drachma "vis-à-vis" the dollar and the other foreign currencies being doubled. The objective of this policy was to boost exports and consequently to expand export-oriented industry, and also to increase foreign exchange reserves, which had previously been provided by foreign aid.

The decision to devalue was accompanied by the abolition of trade quotas. Analogously the objectives of credit policy were to assist the sectors of the economy which were vital for the development of the country. Although the interest-rate differentials were administered by the monetary authorities with the scope of providing low-cost funds, the inadequate reserves of the commercial banks — due to the continuing mistrust of the private sector — was frustrating the achievement of such a policy. The combination of low liquidity in the banking sector and the tight monetary policy pursued by the government resulted in lower inflation. Prices had increased by 19 per cent by the end of the year and by 14 per cent in 1954 while the economy was adjusting towards the world inflation. By the end of 1955, the inflation rate had dropped to 5.5 per cent with clear indications for further reductions. On the

Figure 1
INFLATION IN GREECE AND MAJOR INDUSTRIAL COUNTRIES

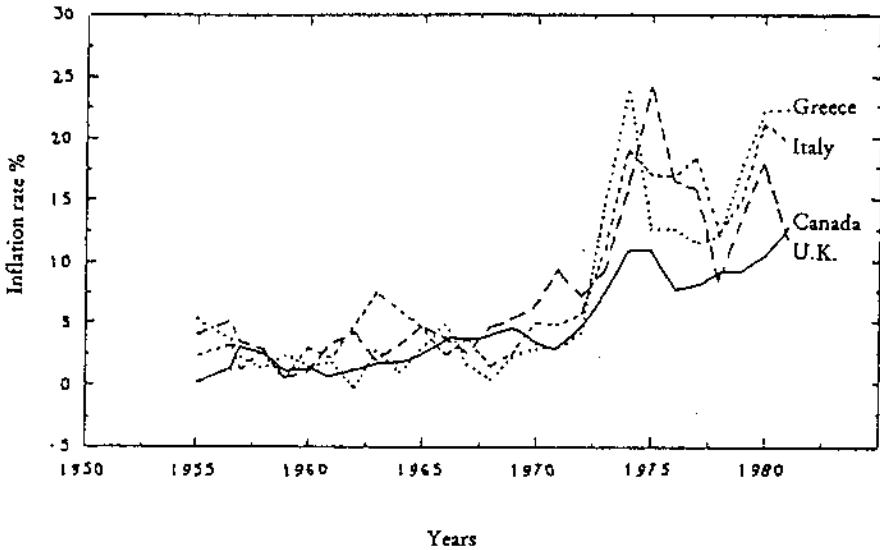
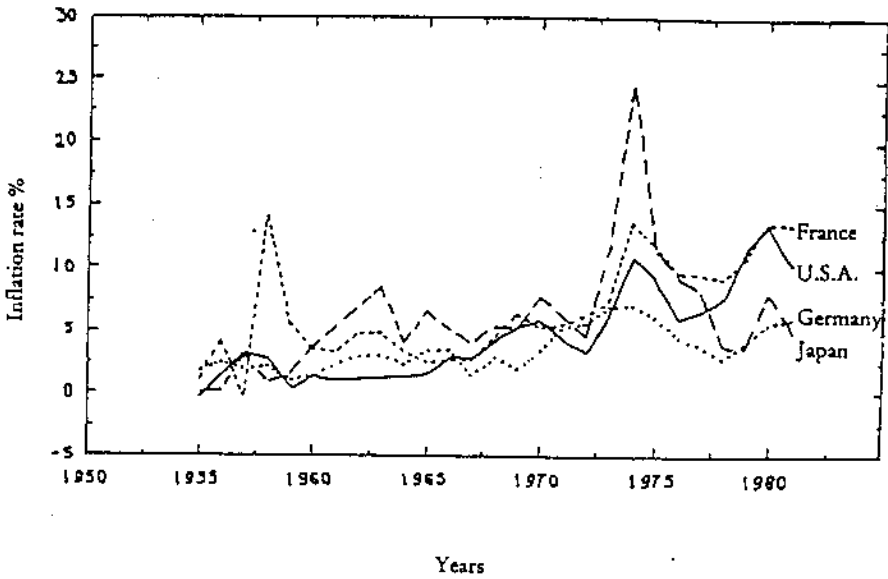
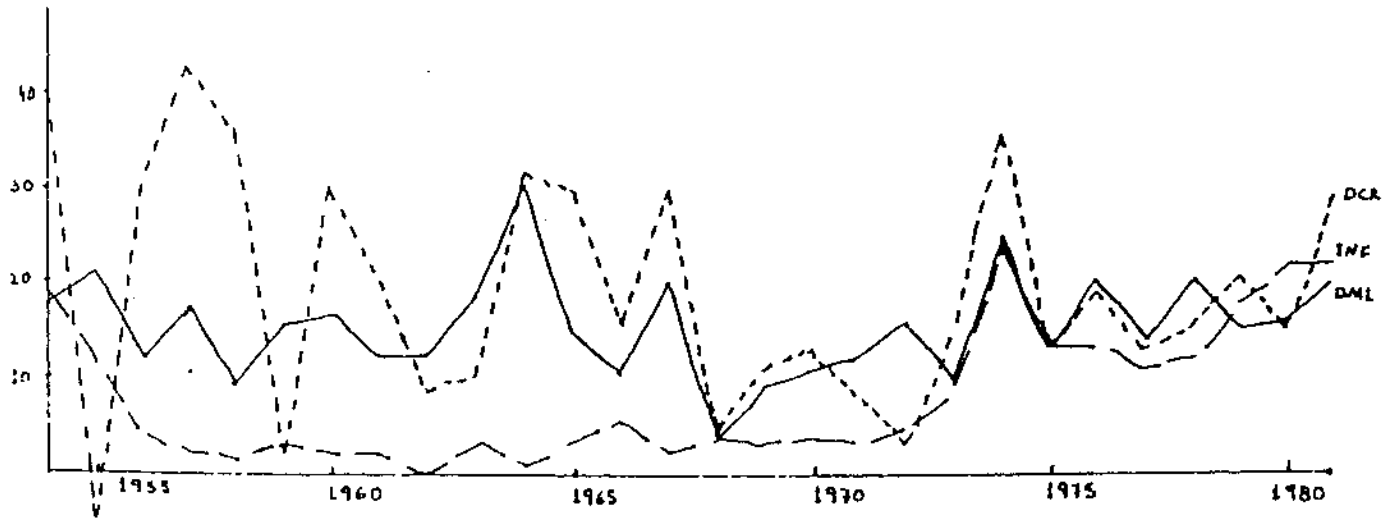


Figure 2
PERCENTAGE CHANGES IN INFLATION RATE, (INF)
MONEY SUPPLY M1, (DM1)
DOMESTIC CREDIT, (DCR)



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figure 3
 CHANGES IN TOTAL CURRENCY FLOW AND OFFICIAL RESERVES

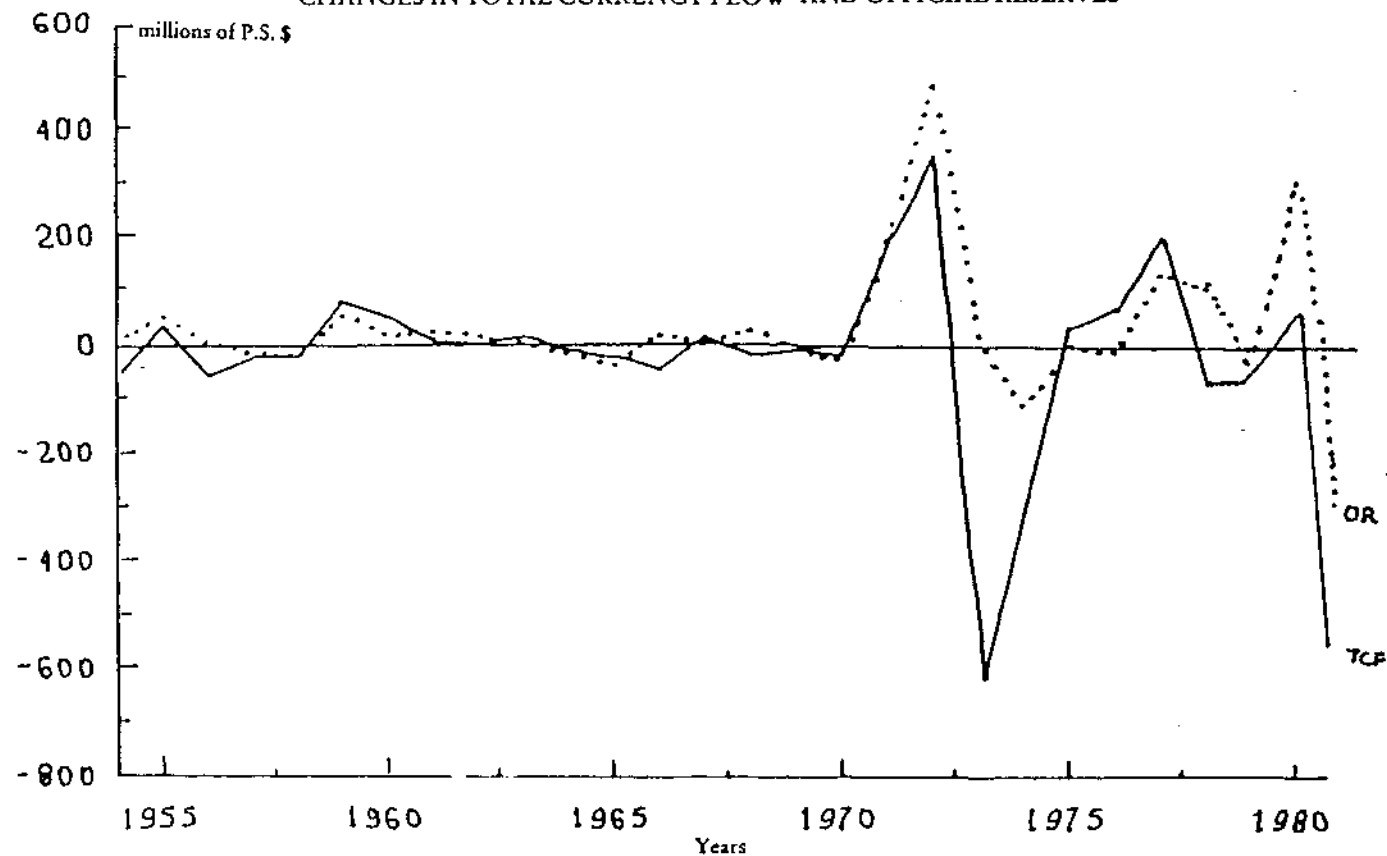
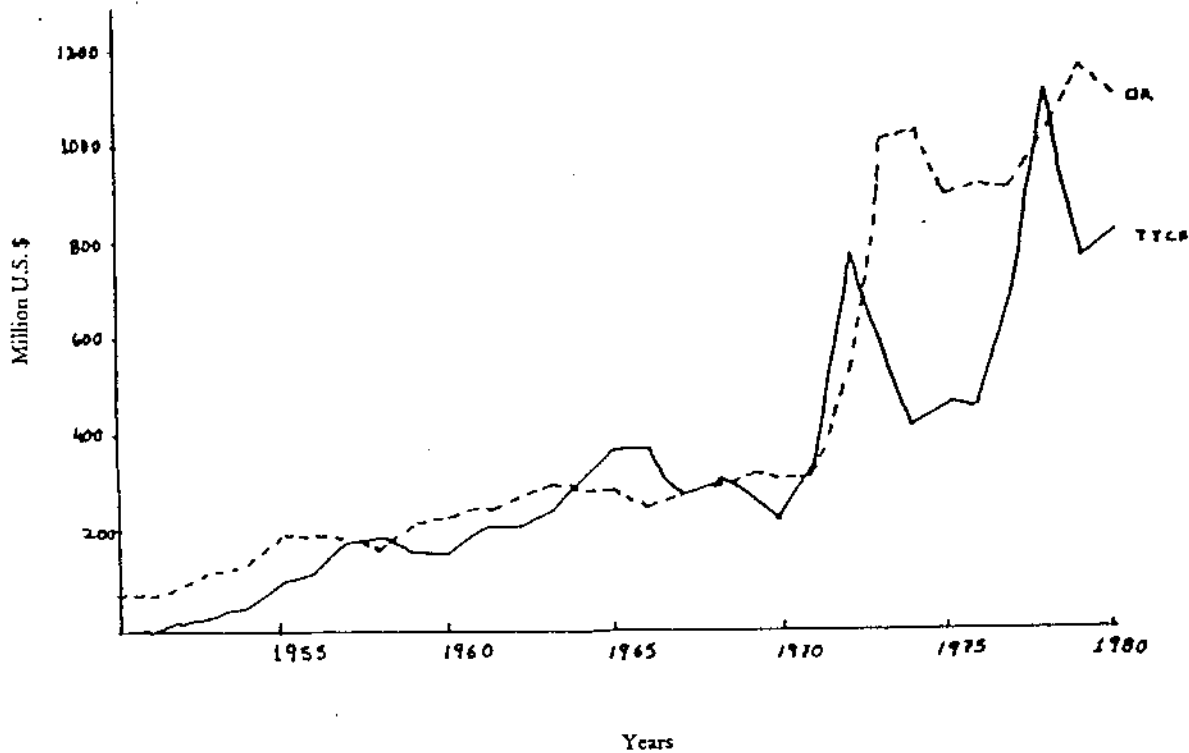


Figure 4
CUMULATIVE TOTAL CURRENCY FLOW (TTCF) AND OFFICIAL RESER-
VES (OR) IN MILLIONS OF U.S. DOLLARS



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Figure 5
BALANCE OF PAYMENTS ITEMS

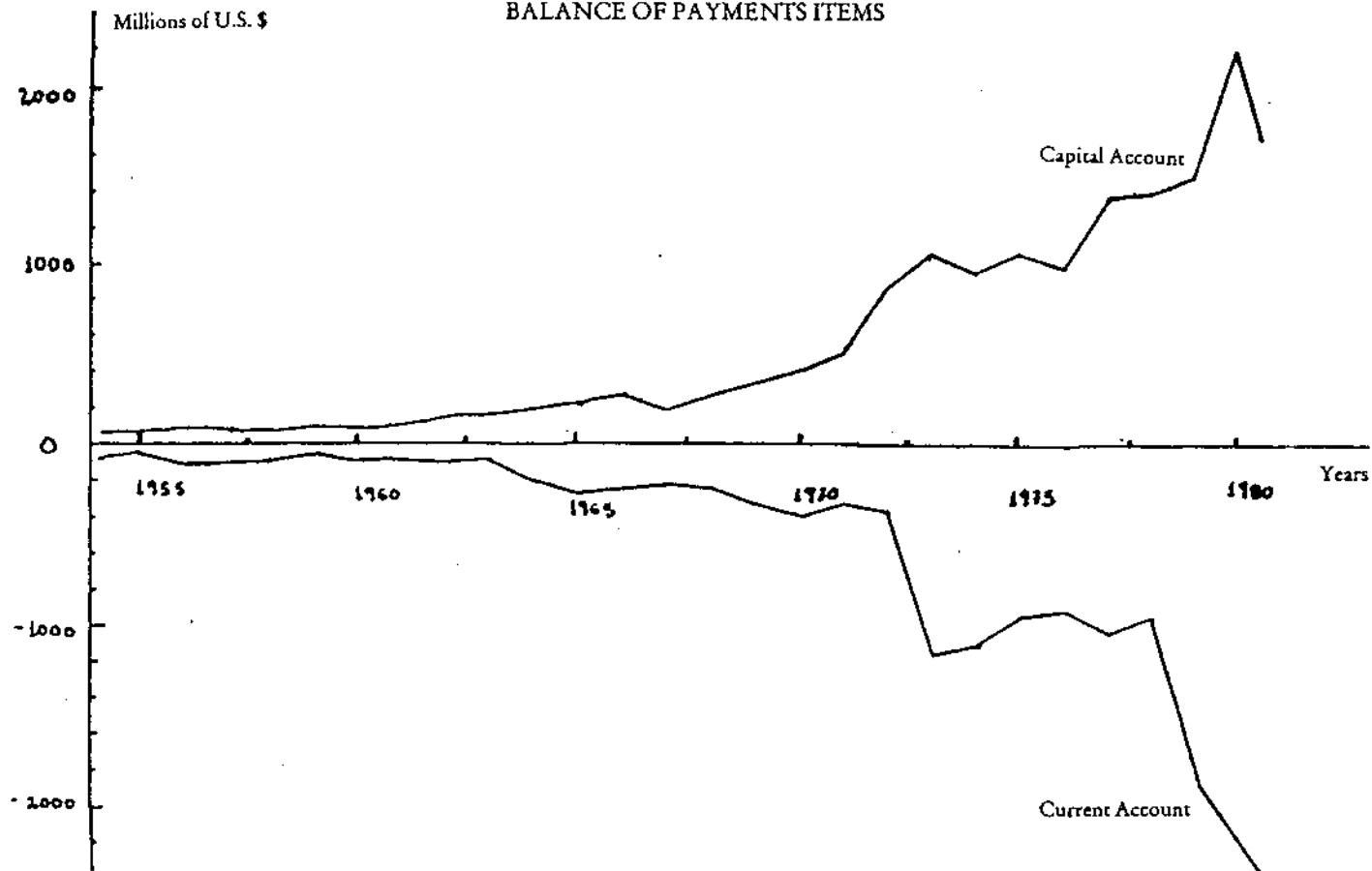
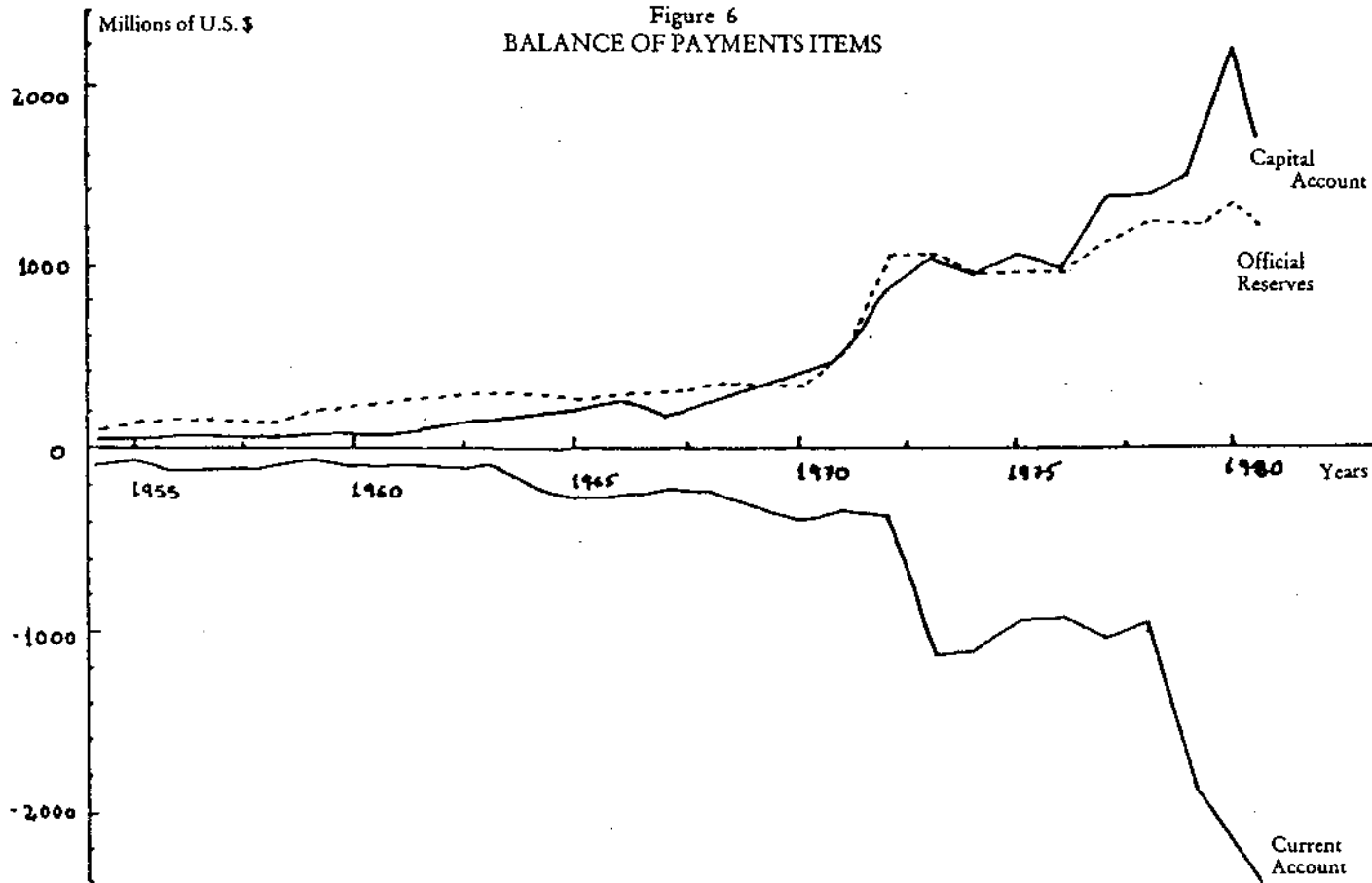


Figure 6
BALANCE OF PAYMENTS ITEMS



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Figure 7
BALANCE OF PAYMENTS ITEMS AND INFLATION

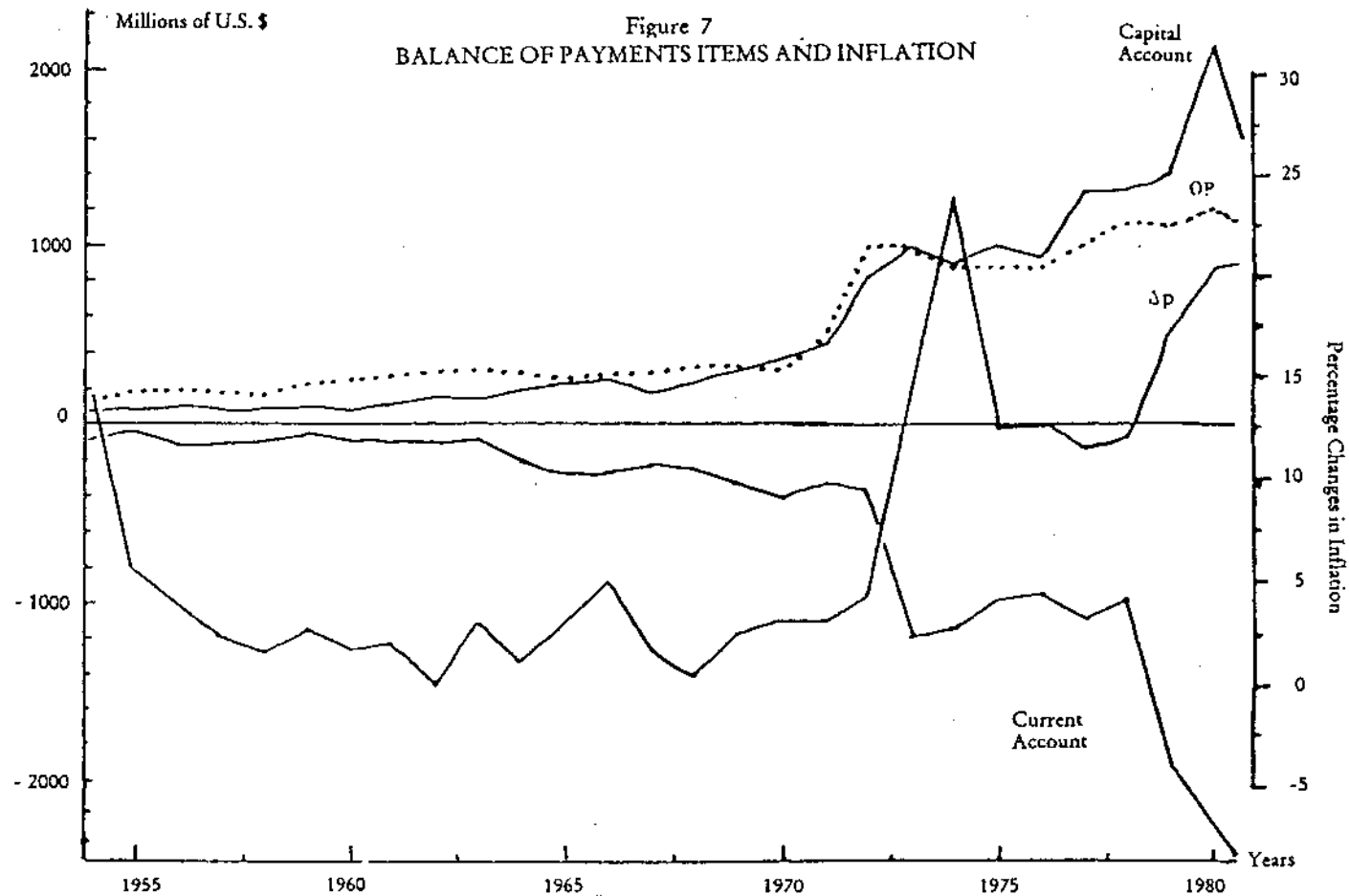
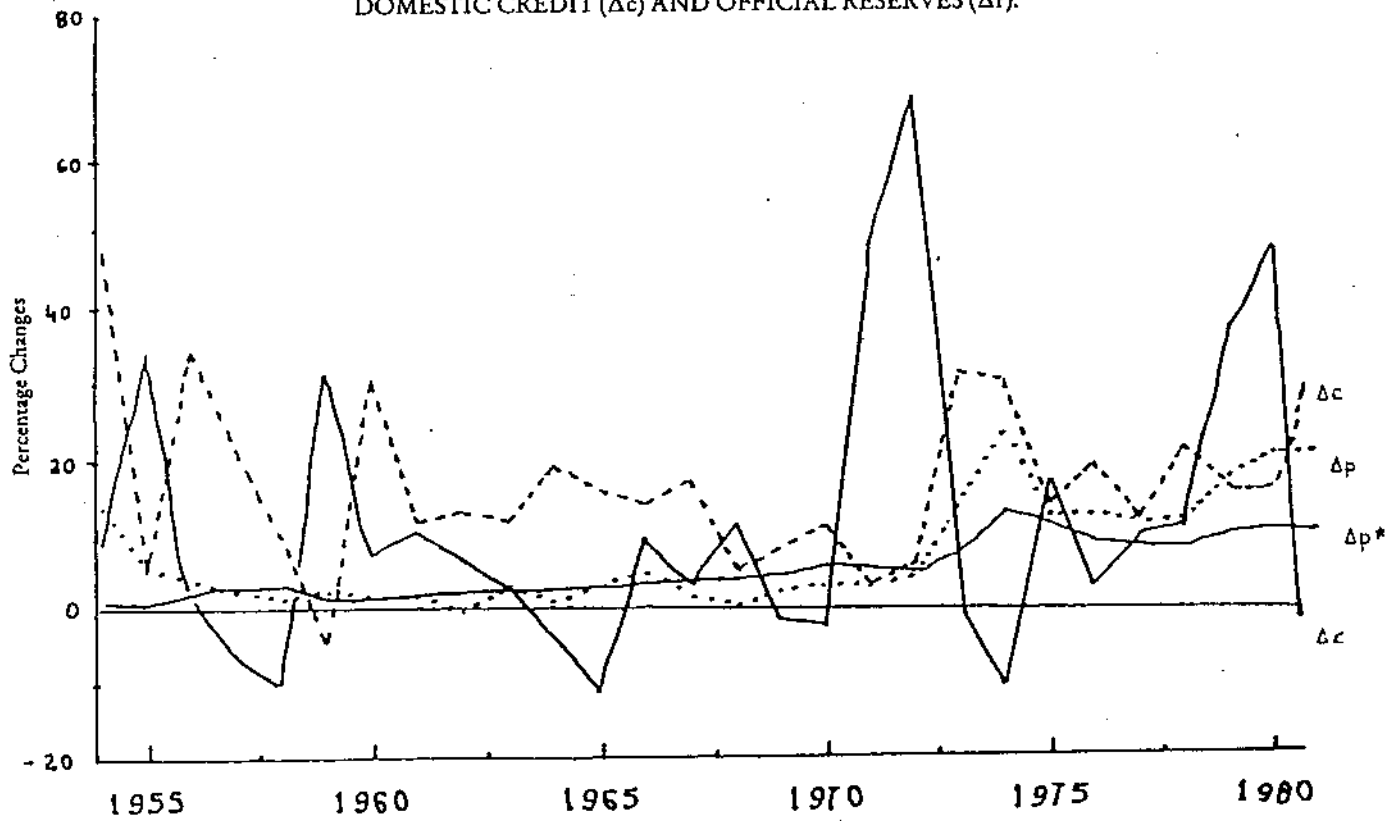


Figure 8
 PERCENTAGE CHANGES IN WORLD, DOMESTIC INFLATION (P^* , \hat{P}),
 DOMESTIC CREDIT (Δc) AND OFFICIAL RESERVES (Δr).



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other hand, there was an obvious improvement in the balance of payments position in the period 1953-1955. The current account deficit showed an 80 per cent fall, while official reserves increased by 70 per cent. Finally, during the same period, the average increase in the real Gross National Product was 9 per cent.

II. 1956-1962: The Emergence of Confidence in the Economy

The new policy measures, combined with a stable government, generated confidence in the Greek economy. Private savers abandoned their predilection for "hoarding" and directed their funds to the commercial banks in the form of "savings deposits". This led to increased liquidity of the commercial banks which resulted in their becoming less dependent on the central bank.

On the other hand, the inflation rate had adjusted to world levels (Figure 1), while the balance of payments was showing a steady improvement which was reflected in the increase in official reserves. Although restrictions on foreign trade had been removed, the deterioration in the trade balance was largely offset by the increased surplus in "invisibles" leading to a relatively low current account deficit. Furthermore, the massive inflow of capital from the private sector, mainly through real estate purchases, resulted in the increase in official reserves (Table 1).

The increased liquidity of the commercial banks boosted domestic credit expansion (Figure 2) but the accompanying tight monetary policy measures eventually led to the stabilization of credit expansion by the end of 1962 at the level of 10 per cent. This rate of credit expansion was consistent with the balance of payments position which improved at the going domestic inflation rate: the growth trend in real GNP in the period 1953-1976 was 6.3 per cent, the average growth of GNP in the period 1956-1962 was 8.5 per cent, while the world inflation rate was at the level of 2.3 per cent. It should be noted that the higher world inflation rate during the period 1960-1964 was undervaluing the national currency, improving the competitive position of the economy. This proposition is supported by the fact that there was a steady growth in the value of exports during the period 1956-1964 amounting on average to 5.7 per cent.

The belief of the monetary authorities that the allocation of credit through the banks would promote the stabilization of the economy and the development of the country, led them to impose dictates upon the banking sector in an endeavor, firstly, to finance gross domestic fixed capital formation in industry, secondly to finance public investment in programmes and finally, to redistribute credit among the financial institutions in a manner which could guarantee its productive use.

The first aim was to be achieved by imposing credit ceilings for the various sectors and by obliging the commercial banks to invest 15 per cent of their reserves in industries in the form of medium-term loans. For the finan-

Table 1
BALANCE OF PAYMENTS ITEMS
(in millions of U.S. dollars)

	Imports	Exports	Trade Balance	Invisible Receipts	Payments	Invisible Balance	Current Account Balance	Capital Account Balance(End of Year)	Official Reserves
1948	89.4	390.9	-301.5	248.7	23.6	225.1	-76.4	54.3	50.3
1949	83.4	367.6	-284.2	302.9	14.4	287.5	3.3	3.0	48.6
1950	85.1	397.7	-312.6	345.7	19.0	326.7	14.1	5.3	54.4
1951	101.9	431.6	-329.7	354.9	17.9	337.0	7.3	5.3	56.2
1952	114.3	274.7	-160.4	201.8	22.8	179.0	18.6	6.8	71.9
1953	134.1	243.3	-109.2	174.0	23.4	150.6	41.4	14.8	120.6
1954	161.0	328.4	-167.4	182.4	30.1	152.3	-15.1	30.9	131.5
1955	206.5	364.2	-157.7	214.5	36.0	178.5	20.8	33.8	186.8
1956	209.6	464.7	-255.1	253.1	39.4	213.7	-41.4	43.9	190.1
1957	22.8	508.3	-285.5	258.8	49.7	209.1	-76.4	65.4	178.9
1958	242.8	509.3	-266.5	240.7	47.7	193.0	-73.5	67.0	161.7
1959	212.5	449.1	-236.6	278.3	54.9	223.4	-13.2	67.5	222.6
1960	208.6	504.7	-296.1	315.8	65.5	250.3	-45.8	46.4	238.5
1961	234.3	564.9	-330.6	357.2	76.1	281.1	-49.5	87.7	265.5
1962	242.6	640.3	-397.7	435.3	87.6	347.7	-50.0	109.1	284.9
1963	295.9	730.2	-434.3	497.2	99.0	398.2	-36.1	103.0	292.8
1964	308.4	867.8	-559.4	517.4	129.3	388.1	-171.3	170.6	281.2
1965	330.9	1,022.2	-691.3	561.0	136.8	424.2	-267.3	221.3	250.2
1966	403.5	1,146.5	-743.0	638.6	154.6	484.0	-259.0	260.1	276.6
1967	452.6	1,155.6	-703.0	662.5	184.0	478.5	-224.5	173.8	286.1
1968	464.9	1,244.4	-779.5	720.8	194.2	526.6	-252.9	263.3	321.9
1969	530.3	1,429.1	-898.8	791.3	240.7	550.6	-348.2	313.2	317.0
1970	612.2	1,704.9	-1,092.7	951.0	266.9	684.1	-408.6	373.3	310.1
1971	624.8	1,945.2	-1,320.4	1,293.5	317.3	976.2	-344.2	478.1	506.8
1972	835.4	2,441.3	-1,605.9	1,606.5	402.1	1,204.4	-401.5	840.5	1,031.9
1973	1,230.5	4,047.2	-2,816.7	2,195.9	570.3	1,625.6	-1,191.5	1,034.5	1,048.3
1974	1,774.1	4,659.4	-2,885.3	2,460.5	720.4	1,740.1	-1,145.2	924.3	903.7
1975	2,029.9	5,072.2	-3,042.3	2,850.3	764.7	2,085.6	-956.7	1,015.3	910.0
1976	2,227.5	5,560.5	-3,333.0	3,187.8	786.8	2,401.0	-932.0	929.3	905.9
1977	2,522.4	6,425.1	-3,902.7	3,700.1	876.9	2,832.2	-1,079.2	1,328.3	1,046.3
1978	2,998.5	7,341.3	-4,342.8	4,422.6	1,037.7	3,384.0	-958.8	1,347.1	1,172.3
1979	3,932.0	10,109.8	-6,177.8	5,663.0	1,366.7	4,296.3	-1,881.5	1,542.1	1,128.0
1980	4,093.9	10,903.4	-6,809.5	6,159.4	1,566.0	4,593.4	-2,216.0	2,270.6	1,517.0
1981	4,771.5	11,468.0	-6,696.5	6,495.1	2,206.2	4,288.9	-2,407.6	1,888.0	1,188.5

Source: Bank of Greece, Various Bulletins.

cing of public investment, the commercial banks were required to invest 24 per cent of their private deposits in Treasury Bills. This requirement dramatically altered the composition of the central government debt with respect to the domestic and foreign sector borrowing sources. Thus, at the end of the period 1956-1963, the value of the ratio of the domestic to foreign debt was about 2.8 while in the previous period it had been about 0.4. Furthermore, the reallocation of credit among the institutions was achieved by imposing different interest rates upon them. Finally, commercial banks which had liquidity problems were permitted to rediscount their short-term portfolio with the Bank of Greece or to withdraw their sight deposits within specified limits.

III. 1963-1967: The Alarm Over Inflationary Pressures

In retrospect, the mid-sixties may be regarded as a critical period for the economies of the Western world. The Bretton Woods System had contributed towards the establishment of multilateral trade, while inflation rates were relatively low and predictable. World inflation underwent a moderate increase, while Greece was also experiencing relatively higher inflation rates compared to previous periods. The tight monetary policies pursued in the previous years had led to the accumulation of official reserves in the country. Since the monetary authorities perceived that the level of reserves was sufficient, they reversed their policies towards an expansionary monetary stance. The easy-money policies led to an increase in domestic demand resulting in an increase in domestic inflation which moved towards the world inflation rate. On the other hand, as a consequence of monetary expansion, the current account deficit was more than doubled leading to reserve losses in the period 1963-1965. Further reserve losses were prevented by capital inflows mainly in the form of government loans.

Since the Greek authorities continued to rely on monetary policy (by means of discretionary measures) to promote growth and structural change, in September 1966 they introduced a new code for the functioning of the financial sector. The objectives of the new measures was to codify the new rules and ensure the flexibility of the banking sector. Thus, a new system of reserve requirements was introduced — analyzed in detail in Halikias (1976) — and the selective controls on the allocation of credit between high and low priority sectors of the economy were abandoned.

On the other hand, increasing doubts concerning the viability of the international monetary system emerged during this period. Expansionary policies in U.S.A. helped to increase the world inflation rate and attempts were made to agree on international monetary reform. At the same time, signs of a future disintegration became apparent since a number of major industrial countries were not willing to follow the expansionary monetary policies of the U.S.A. government.

IV. 1967-1974: The Economy Under The Military Regime

In the late 1960s, the major industrial countries experienced serious political upheavals, especially France. However, the central event in Greek political life was the overthrow of democracy by the colonels' "coup d'état" on 21 April 1967. The first economic measures of the dictators were to place controls on the labour market by prohibiting the "right to strike" and to impose price and income policies by freezing and controlling wages and prices. This led to a fall in the inflation rate which was kept well below the world inflation rate until 1972. By the end of that year, the current account had experienced a slight deterioration, but capital inflows resulted in an increase in

official reserves. The fact that the current account did not deteriorate even more was due mainly to the import quotas imposed by the military government.

Following the disintegration of the Bretton Woods System and the abandonment of fixed exchange rates (August 1971), the monetary authorities kept the parity of the drachma with the dollar, bringing about its devaluation *vis-à-vis* most European currencies. On the other hand, tight monetary policies were resulting in excess demand for money, leading to capital inflows and to the accumulation of reserves while domestic inflation was kept well below the world level. By the end of 1972, fiscal policy was restrictive, causing small government deficits which were not frustrating the conduct of monetary policy.

However, due to growing internal pressures for the restoration of democracy and reform of economic policy, in January 1973 the military government proposed an expansionary, money-financed, fiscal policy in an attempt to retain its power. It also removed price controls for a number of consumer goods as well as for imports. The drachma was revalued against the U.S. dollar by 10 per cent to a level of dr. 27 per dollar, which was followed by a downward adjustment to dr. 28 per dollar in November 1973.

The expansionary monetary and fiscal policies, combined with the relaxation of price controls and the 1973 oil shock, contributed to the sharp increase in inflation to 14.4 per cent, which was well above the rates in other Western economies. Moreover, revaluation of the home currency contributed to a deterioration in the current account deficit which had dramatically increased from 367.8 million U.S. dollars to 1,175 million dollars. However, the net inflow of capital in the form of foreign investment and loans by the government and public enterprises prevented losses in official reserves. Finally, the growth rate of GNP, although high, was showing a falling tendency, dropping to 7.3 per cent.

The new military regime of November 1973 attempted to put both economic and political activity under firm control. Price controls were re-introduced as well as tight exchange controls, combined with quantitative controls on imports of luxury goods. Monetary policy was tightened and the money supply had fallen sharply by the end of June 1974. The Cyprus crisis in July 1974 led to the collapse of the military government, the restoration of democracy in the country and the establishment of a civilian government.

V. 1974-1981: Monetary and Credit Policy with no Credit

The policy measures taken by the civilian government aimed at securing free-market conditions which would be compatible with the stabilization of the economy. Thus, free wage bargaining was restored and price controls were abolished. Since economic activity was slowing down, due to the Cyprus crisis, expansionary policies were carried out to bring about a recovery in

demand and output. However, in 1974, real GNP fell by 3.9 per cent, while the inflation rate moved to the record level of 23.8 per cent; the balance of payments position deteriorated with a record current account deficit and a fall in official reserves which led the policy makers to disengage the drachma from the U.S. dollar in March 1975 and operate a "controlled float". According to their view, by adopting some exchange rate flexibility and by allowing a depreciation of the currency — by 6.5 per cent after the institution of the controlled float and by 21 per cent after the Smithsonian Agreement — the economy could expand. The slowdown in domestic credit expansion (3.3 per cent growth in real GNP) led to some improvement in the balance of payments position, while inflation was reduced to 12.5 per cent by the end of 1975. The continuation of expansionary fiscal policies by the government in 1976-1977, resulted in an increase in real GNP to an average rate of 5.5 per cent. However, the budget deficit was increased and it was financed mainly by money creation. The re-introduction of price controls in January 1976 for a number of goods prevented the inflation rate from rising above 12 per cent. Taking into account that the inflation rate of the major industrial countries was showing a downward trend, we can argue that the inflationary pressures in the Greek economy were originating from domestic sources, especially from expansionary demand management policies. The devaluation of the drachma, around 5 per cent per annum, together with high customs duties and additional taxes on imported goods, led to an improvement in the balance of payments position. However, it should be noted that the trend in the current account deficit was financed by autonomous capital inflows from abroad.

Recognition by the monetary authorities that expansionary demand policies were generating a rising aggregate excess demand which in turn was increasing inflationary pressures in the economy, prompted an attempt to reverse policies in 1978. The major problem during the period 1976-1979 was to reconcile the government's objective to reduce the rate of inflation with the need to finance increasing government deficits, while continuing to provide credit to support private sector activity. However, the money-financed deficits and the allocation of credit to mainly unproductive parts of the private sector were contributing substantially to the acceleration of the rate of inflation.

Although there was an attempt to adopt a more restrictive monetary policy by raising interest rates, the substantial fiscal deficits led to an increase in the money supply which exerted a strong inflationary impulse. Inflation climbed to 18 per cent. Although the monetary authorities had been devaluing the drachma, the balance of payments position deteriorated further, especially the current account which reached a deficit of 1.8 million dollars. Economic conditions got worse in 1980 and 1981 because of the expansionary fiscal policy which resulted in the public sector borrowing twice as much, compared to 1979, as a proportion of GNP. Despite the expansionary fiscal

policies, real GNP growth was only 1.5 per cent higher in 1980, and in 1981 real GNP was stagnant. The inflation rate reached a record level of 25 per cent in 1981 and by undermining the competitiveness of the economy, contributed to the rise in the current account deficit. The worsening economic conditions led to a change in government. The new political administration following the 1981 general elections had a different approach to the application of stabilization policies and its analysis is beyond the scope of this article.

4. Policy setting in the Greek economy: A critical appraisal

A critical assessment of policy making in Greece during the period under discussion requires an examination of the characteristics related to the functioning of and the relationship between the productive and financial sectors in the development process. The main features of the economy during this period were rapid development and the evolving contrasts among the sectors. The productive sector was characterised by a backward system of agriculture, with advanced farming dominating in small parts of the country and by the co-existence of highly advanced and productive industrial units with old-fashioned and inefficient ones. Regional disparity and the growth of urban centres are both evident. At the same time the financial sector was characterized by the existence of an oligopolistic banking sector, and the lack of capital markets and other non-banking financial intermediaries. The combination of these contrasts exerted considerable influence on policy making concerning the economy.

In the immediate post-war period, the industrialization of the Greek economy was planned to be achieved through an import substitution and export oriented policy combined with high import taxes on consumer goods and the necessary devaluation of the currency. A combination of these policies with tight monetary and credit policies led to favourable results, with the inflation rate falling to nearly zero by the end of the decade while the economy was accumulating foreign reserves and experiencing an average annual rate of GNP growth of 6 per cent. Since the policy makers considered that the economy had accumulated sufficient foreign reserves, they eventually reversed the restrictive policies, and adopted an expansionary monetary policy stance, which produced higher GNP growth rates for the period 1963-1967 and a stable inflation rate at 2.5 per cent. There was an outflow of official reserves in the first two years which was under control by the end of 1967. However, during this period, the financial sector showed a number of peculiarities which, as we shall explain below, exerted considerable influence on the behaviour of the private sector.

Although the banking sector became more flexible and modernized for attracting the deposits of private investors, the capital market (Stock Exchange) was working under "closed circuit conditions". In other words organized speculation in the market for shares was preventing low-income inves-

tors from holding shares in industry. This was due to the family structure of private enterprises which preferred to maintain their firms under strict control while they used the performance of the shares of their company on the Stock Exchange as a means of attracting loans under favourable terms from the banking sector. Thus, the only financial assets available in the portfolio of the private sector were in the form of deposits in the commercial banks and specialized credit institutions. This fact discouraged the private sector from substituting excess cash balances with other financial assets. Especially in the cases of uncertainty and high inflation, private depositors were either investing their savings in purchasing real estate or they were increasing their expenditure on consumer durables. This was an important fact which played a large role in the policy-making decisions about the economy. The attempts made in 1964 to modernize financial markets and to implement long-term monetary and budgetary policies, had no success due to internal political pressures on government policies and indirect, external political pressures which caused a tense political climate and economic instability, culminating in the military coup of April 1967.

The economic policy of the military government for the period of 1967-1972 shows three main elements: strict control of the labour market; tight monetary and fiscal policies; and price controls. Although the tight monetary and fiscal policies had favourable effects on the inflation rate, which was kept below the world rate, price and wage controls were bound to fail in the medium term. Taking into account that the intention of the policy makers was to stimulate domestic output by providing, among other incentives, tax incentives and favourable loans to productive sectors of the economy, controls on wages could not have been sustainable. Consequently, given the conditions of the labour market, wage fixing below the market equilibrium level was creating excess demand for labour, especially in some categories of industrial workers and was generating social unrest. As a result, wage increases of 10% were announced in 1972. Furthermore, reversal of the government's policies in 1973 with expansionary money-financed fiscal policies, led to a further wage increase at a rate of 15% while price controls for a number of goods were removed, contributing to higher inflation rates. The fairly low inflation rate of 4% was transformed into a relatively high one of 14.4%. Expansionary policies led to a considerable increase in the current account deficit (from 367.8 million U.S. dollars to 1.175 billion) and an outflow of official reserves was prevented by autonomous net inflows in the capital account. Finally, at the end of the period, a slowdown in the rate of growth of GNP was evident.

The main feature of the 1974-1981 period was the expansionary demand management stance and the decline in the growth of the economy. Expansionary fiscal policies increased public sector borrowing from around 9% of GDP in the four years to 1979, to a record 19% in 1981. The continual devaluation of the drachma since 1975 had neither stimulated output nor im-

proved the country's balance of payments position. This was due to the relatively expansionary monetary policy — mainly attributable to monetary financing of the fiscal deficit — which had also increased inflationary pressures. It could be argued that this period was characterized by the policy makers' failure to appreciate that price controls were not sustainable while inflationary pressures were originating mainly from domestic excess demand. Furthermore, they ignored the interaction between fiscal and monetary policy. Therefore, although they attempted to control the credit distributed in the private sector, expansionary money-financed fiscal policies exerted pressures on prices and the balance of payments, contributing to the increase in uncertainty about the economy. Either policy makers were unaware of incompatibility existing between the objective to reduce inflation and the objective to attain a balance of payments equilibrium by applying expansionary monetary and fiscal policies, or restrictive policies were not implemented due to short-term political considerations.

5. Conclusions

This paper analyzed the stabilization policies applied in Greece for the period 1953-1981. The main findings suggest that the determination to pursue policies which were compatible with international environment monetary policies, drove the economy to experience high rates of growth for the period up till the end of sixties when the internal and external equilibrium was not at stake. Policy analysis for the post-1975 period indicates that there were significant moves towards strict monetary policies in the major countries, although these actions did not influence Greek policy makers who discovered extreme Keynesian policies with a lag of a decade and applied them in an adverse international economic setting. The main reason why the competent authorities shifted from monetary targets to income policies was probably due to their inability to foresee that pursuit of output growth beyond that consistent with equilibrium would enhance the impact of destabilizing forces on macroeconomic variables. Under these circumstances the experience of the seventies has shown that economic disequilibria are manifestations of monetary mismanagement.

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