
DEBATES

Political Stability and Economic Development: the Case of Greece, 1948-1966

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In a paper published in a recent issue of this journal, Professors A. J. Kondonassis, A. G. Malliaris and N. S. Robinson¹ (K-M-R hereafter) investigate the hypotheses that political instability hinders economic development by examining the post-war development of the Greek economy. Their analysis and conclusions raise some questions that need, at least, to be identified. Also, the hypothesis itself requires some elaboration if it is going to have any value in guiding research. The purpose of this note is to comment on these points.

However, before proceeding, some observations need to be made on the data used in the K-M-R study. The data before 1952 and especially before 1950 can hardly be considered reliable. The Greek Civil War ended in 1949, and nobody at that time and for the next few years would really be concerned with collecting data on GNP, not to speak of the quality of statistical data. Some of the existing time - series for those years were estimated later.

Also the extreme value of the percentage growth of real GNP for 1952-53, which was 13.5 (appearing in Table 4 of the K-M-R paper), was due to that year's drastic devaluation of the Greek currency from \$1 = 15 drachmae to \$1 = 30 drachmae. Therefore, the only statistical data that have any reliability for the purpose at hand are those after 1953 or even later.

The conclusion of the K-M-R paper derived from the experience of Greece is that "political stability tends to have a beneficial impact on economic develop-

¹ "Political Instability and Economic Development: an Economic History Case Study of Greece 1948-1966" *The Journal of European Economic History*, Vol. XII, No. 2, Fall 1983, pp. 351-62.

ment". Various qualifying statements are made, but their conclusion in the above quotation is clear. However, in view of the authors' own periodization and the rates of growth of real GNP corresponding to each period the opposite conclusion should be reached. For the periods 1952-55 and 1955-63 which the authors accept as periods of political stability, the average annual rate of growth was 7.7 and 6.1 percent, respectively. For the period 1963-65 which the authors define as politically unstable, the average annual rate of growth was 9.15. For 1965-66, also an unstable period, the rate of growth was 6.5. It seems to me that if any conclusion is to be derived from these numbers, it should be that political instability (rather than stability) tends to have a beneficial impact on economic development! Of course such a conclusion would be difficult to justify under normal circumstances, and I know of nobody that would accept it. But this is what the numbers say.

The source of this paradoxical conclusion is to be found in the way the authors define political instability. According to their definition political instability refers to the existence of more than one government every three to four years. Thus the 1963-65 period is termed politically unstable. Nothing could be farther from the truth. The government of that period was elected on 16 February 1963 with 53 percent of the popular vote and much stronger support in the parliament. It also had support from other parties representing another 10 percent of the popular vote. It seems correct to say that the entire 1952-65 period was characterized by political stability. Consequently, the Greek experience of this period cannot really be used to test the relationship between political stability and economic developments.

Changing governments can, certainly, be the result of underlying political instability. But to equate political instability with "often" changing governments is erroneous. Government and its behaviour is only the façade of the underlying and supporting social and economic forces. To the extent that the same forces dominate the structure of the society, alternation of governments does not imply political instability. On the other hand, it is possible to have inherent political instability but no change in government, as for example in the case of military dictatorships. There, the inherent political instability expresses itself, under certain conditions, as a revolution when the intensity of conflicts exceeds a certain point. In general, it seems erroneous to derive conclusions about political instability by observing the frequency of government changes. In short, government changes are not necessarily a good proxy variable for political instability, and that is where the trouble with the K-M-R results is to be found.

Now, let me come to what I consider to be the main weakness not just of the K-M-R paper, but of all the literature that attempts to identify causal relationships running from political instability to economic development. This is equivalent to saying that political instability (or stability) is the exogenous variable and economic development is the endogenous one. Immediately the question is raised: What determines political instability or, differently stated, from where does the government derive its power? Excluding theocratic explanation and irrelevant

idealism, one is forced to accept that political power and its stability are a more - or - less direct derivative of the conflicting economic interests of the various classes and social strata and their relative strength. Government, as an entity through which political power is expressed, being itself the outcome of the relative strength of the economic and social forces, cannot act in a way that would disturb the existing forces and trends.

Of course, this does not mean that a government is completely impotent and unable to take measures that would have effects on the economic performance of society. But these measures cannot upset the existing complex of economic interests and they cannot change drastically the course of economic trends to the point of disturbing the balance of powers, or else the government will be overthrown. On the other hand, the government needs to take measures that would reflect in the political and legal superstructure of the society the changes that are occurring in the economic basis of society. In other words, the government can enjoy a certain degree of autonomy but it cannot extend this autonomy and the resulting independence beyond the limits determined by the existing structure of economic powers.

In summary, the dominant economic classes and strata extend, by various means, their dominance to the political level where the main role is played by the government. Thus the government is constrained to actions that enhance (or at most do not endanger) the long-run interests of the dominant classes.

From this, we conclude that the causal relationship between political stability and economic development runs from economic development to political stability rather than vice versa. Economic changes of a degree that would have an impact on the power structure of society would also be reflected in political instability, however measured.

Of course, institutions or organizations i.e. national government, local government, labour unions, etc., as soon as they are formed have functions and make decisions that have effects on other variables including those that led to their own creation. Consequently, the relationship between economic development and political stability is a two-way relationship. Economic development affects political stability and it is, in turn, affected by it. The process of interaction of these two variables is neither obvious nor simple. Also their qualification for econometric purposes is difficult. But this is no reason to neglect one or the other side of their interaction.

