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## NOTES

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### *The Early Post-War Greek Economy: from Liberation to the Truman Doctrine*

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The study of the economic history of modern Greece, although still in its infancy, has developed at a prodigious pace during the last decade. Early post-war Greek economic history, however, has been given little attention by economic historians and economists alike if compared to political history studies<sup>1</sup>.

The principal aim of this paper, which is part of the broader research project *Political Unrest, Reconstruction, Hyperinflation and Stabilization in Greece, 1944-1947*, is to give a brief introduction to early post-war Greek economic history from the country's liberation on 18 October, 1944 to the Truman Doctrine in 1947, when the United States took over Britain's role in Greece. The paper is organized as follows: section one deals briefly with the structure of the Greek economy between the two world wars; section two analyses the destruction caused by the Axis forces in the forties; section three pays attention to the conditions at the time of liberation up to the first monetary reform of 10 November, 1944; section four presents British officials' opinions of early post-war Greek monetary inflation and, finally, sections five and six deal with the economic and financial experiences of Greece from the first monetary reform to the Truman Doctrine.

#### **I. General Characteristics of the Economy**

The first world war and its aftermath brought a great expansion of Greek territory. By 1940 Greece had almost stabilized near its present frontier lines, but several complex territorial issues remained to be resolved, with Northern

<sup>1</sup> For a bibliographic survey, see G. Stathakis, "Approaches to the Early Post-War Greek Economy: A Survey", *Journal of Modern Hellenism*, 7, 1990:163-190.

Epirus (an area of about 1,900 square miles in southern Albania), the Dodecanese (an island group in the south-east Aegean) and Cyprus still under alien law and rule.

Greece contains a variety of landscapes but the land is basically rocky and mountainous and a large part of its area consists of scattered islands of various sizes. Its total area comprises 32 million acres or a little more than 50,000 square miles, of which only 19 per cent was suitable for cultivation from 1933 to 1937. During the same period Greece was a very densely populated country with an average annual density of 790 inhabitants per square mile of cultivated land and 135 inhabitants per square mile of the total land area. In 1920 Greece's population totalled 5,017,000 and by 1939 this number had risen to 7,201,000: an absolute increase of 2,184,000 or a relative increase of 43.5 per cent had occurred. Pre-war official Greek national income data are not available, but it is suggested that per capita income for the late 1930s was somewhere between \$75-90, which was comparatively one of the lowest in Europe.

Before world war II, Greece was basically a primary-product producing country with almost 60 per cent of all gainfully employed people in agriculture: Greece's primary agricultural crops were tobacco, olives, wheat and grapes. By 1929, the dominant form of land ownership in Greek agriculture was small owner-operated farms. The prevalent methods of cultivation and farm organization were unsatisfactory, inefficient and primitive. The use of chemical fertilizers and spraying materials was limited. Farm implements and machinery were absent. Lack of capital, soil exhaustion and low productivity were also common phenomena. As a result, Greece had to import a high proportion of essential foodstuffs in order to feed a rapidly growing population. The same also applied to build materials, fuel for industrial and even domestic purposes, miscellaneous manufactured and semi-manufactured goods and various raw materials needed for Greece's industries. Of all products and goods imported to Greece during the 1933-1937 period, cereals comprised an average of 19.6 per cent, other foodstuffs 8.9 per cent, livestock 3.8 per cent and raw textiles and fibres 4.2 per cent; that is a total of 36.5 per cent of all imports were comprised of agricultural products. On the other hand, tobacco alone accounted for an average of 43.6 per cent of total Greek exports, dried raisins 19.4 per cent, olive oil 4.2 per cent, olives 2.9 per cent and wine 2.9 per cent during the same period, or a total of 73.5 per cent of all exports.

Industrial expansion had a late start in Greece and, until the first world war, Greek industry was practically non-existent. During the inter-war period, however, a number of changes occurred that facilitated the development of industrial settlements and provided a framework conducive to some degree of industrialisation. Industrial production thus doubled in horse power and value and tripled in volume from 1923 to 1939, while electricity production quadrupled from 1928 to 1938. Despite this progress, however, the over-all picture of the economy by the outbreak of world war II was one of backwardness and slow motion. Greek business firms remained family-owned

and family-managed enterprises, small in size, faithful to old technologies and inefficient, with high production costs and unable to provide large-scale employment.

## II. War Devastation

Upon liberation (the Italian, German and Bulgarian occupation lasted from April 1941 to October 1944), the Greek economy was found to be almost completely prostrate<sup>2</sup>. The destruction caused by the Axis forces was of an enormous scale and every sector was left utterly devastated<sup>3</sup>. Approximately 450,000 people perished, with many people dying of malnutrition and disease, while several tens of thousands were killed in battle or executed in reprisal by the occupation forces for acts of resistance. The value of property damaged or lost was extensive and total war losses were estimated at several billion pre-war dollars. A huge part of the entire housing sector had been destroyed and hundreds of villages were totally burned down, rendering hundreds of thousands of people homeless, mostly in the agricultural regions. Driven from the land, their former inhabitants took to the mountains in order to survive or sought refuge in the already congested towns, thus creating a serious and dangerous social problem.

The productive efficiency of agriculture fell substantially below pre-war levels and agricultural products which constituted the bulk of Greece's pre-war export commodities suffered tremendous losses in comparison with the pre-war year of 1938, with a 40 per cent decline in cereal production, 66 per cent in grapes and raisins, 89 per cent in tobacco and 75 per cent in cotton. In addition, forests were cut down and the timber transported to Germany and Italy, Greece thus losing almost one-fourth of her precious timber resources. Equally serious were the heavy losses in animal husbandry, with an 80 per cent loss of pigs, 50 per cent of sheep and goats, 60 per cent of cattle, buffaloes, horses and mules, 40 per cent of asses, 50 per cent of hens, etc. Almost all tractors disappeared during the war, while other agricultural implements and machinery were destroyed or looted, leaving the country with practically no agricultural machinery. The same deterioration also took place with the Greek mining industry. Total production and mineral ore exports fell in 1941 to 6 per cent of

<sup>2</sup> For an annotated bibliography on Greece under Axis occupation, see J.O. Iatrides (ed.), *Greece in the 1940s: A Bibliographic Companion*. Hanover, NH UP of New England, 1981; and for a general bibliography, see H.A. Richter, *Greece and Cyprus since 1920: Bibliography of Contemporary History*. Heidelberg-Heilbronn: Wissenschaftlicher Verlag Nea Hellas, 1984; see also F.A. Spencer, *War and Postwar Greece: An Analysis Based on Greek Writings*. Washington: The Library of Congress, 1952.

<sup>3</sup> In writing this section I have relied extensively on K. Doxiadis, *Devastation in Greece*. London: Keliher, Hudson and Kearns, 1945.

the pre-war levels, to 2 per cent in 1942 and in 1943 practically ceased. The industrial sector suffered severe losses as well during the enemy occupation. Industrial production almost came to a standstill, partly because of lack of transport, fuel and other imported raw materials, and the relatively small industrial output was used almost completely for the benefit of the occupation forces. Damage to installations, while less severe than expected, was also recorded and entire industrial plants were either destroyed or shipped away to the north. The shipping industry losses of Greece were equally appalling. The Greek merchant fleet was brought to near ruin and of its 1,218 ships totalling 1,815,836 tons, 785 were lost during the war totalling 1,208,790 tons, a total loss of 64.4 per cent of its ships and 66.5 per cent of its tonnage. Here is a breakdown of these losses: 71.2 per cent of all large cargo ships and 68.3 per cent of its tonnage; 62.4 per cent of all small cargo ships and 71.7 per cent of its tonnage; 33.8 per cent of all passenger ships and 35.3 per cent of its tonnage. Similarly, the loss to the sailing ship fleet was tremendous, as 426 ships totalling 25,000 tons were lost, or about 66.5 per cent of its ships and 52 per cent of its tonnage.

The already sadly deficient transportation and communication system was thrown into a state of almost complete chaos, with the railway system leading the list in losses. Almost all locomotives, railway coaches and rolling stock were wrecked or stolen. Machinery, installations and marshalling yards were also destroyed. Most of the railway and highway bridges were destroyed and so were vital tunnels, mountain passes and canals. Roads and airports were rendered unserviceable, there were no aeroplanes and most of the ports were severely damaged by frequent bombing. Telephone and telegraph lines were completely dismantled, while telephone and telegraph equipment and installations were confiscated and transported to Germany. Finally, most of Greece's pre-war private cars, taxis, buses, trucks, lorries, etc. were taken away or rendered useless.

This systematic destruction, however, was by no means the only adverse effect of the war: at least as serious was a fantastic galloping inflation<sup>4</sup>. Monetary conditions were in total disarray, while public expenditures were met

<sup>4</sup> The economics of occupation have not been the subject of much research to date. See, for instance, H. Ritter, "German Policy in Occupied Greece and its Economic Impact", in F.X.J. Homer and L.D. Wilcox (eds.), *Germany and Europe in the Era of the Two World Wars*. Charlottesville: UP of Virginia, 1986, pp.157-182; another recent study is by S.B. Thomadakis, "Black Market, Inflation, and Force in the Economy of Occupied Greece", in J.O. Iatrides (ed.), *Greece in the 1940s: A Nation in Crisis*. Hanover, NH: University Press of New England, 1981, pp.61-80. See also the older and indispensable studies of S. Agapitides, "The Inflation of the Cost of living and Wages in Greece during the German Occupation", *International Labour Review*, LII(6), 1945:643-651; and W. Cleveland and D. Delivanis, *Greek Monetary Developments 1939-1948: A Case Study of the Consequences of World War II for the Monetary System of a Small Nation*. Bloomington, IN: Indiana University, 1949.

by issuance of money. A complete lack of confidence in paper money prevailed and the drachma ceased to be a common measure of value. Economic exchange had reverted to barter and the only acceptable means of payment at least in concluding important transactions was the gold sovereign. The bank credit mechanism was also destroyed as deposit savings were wiped out by the hyperinflation of the occupation period and all pre-war debt-asset relationships were repudiated.

The occupation forces had, furthermore, ruined the foreign trade of Greece, thus the whole burden of supplying the food needs of the country fell upon local production: the volume of imports fell away to only 6 per cent of the pre-war total in 1941, then rose to 10 per cent and, during the last year of the enemy occupation, to 12 per cent. Similarly, exports almost came to a standstill: in 1941 they fell to 8 per cent of the pre-war total, in 1942 to 6 per cent and in 1943 to only 3 per cent. But even more serious was the fact that Greece piled up large clearing credit balances since there was very little that Germany or Italy could sell in exchange during the occupation years.

Against this troubled background of confiscation, outright looting, galloping currency inflation, reckless fiscal manipulation, privation and breakdown of physical commodity movement and normal supply channels, black market activity became one of the basic mechanisms of commodity distribution. Food was used as a speculative commodity and war profiteers, through black market transactions, made huge fortunes. The immediate result was untold human suffering. Black market operations led to a great shortage of necessary consumption items, especially food, and people were starving, cold and in poor health, with medical supplies and services reduced to dangerously low levels<sup>5</sup>.

Serious as the economic situation was, matters were not much better on the political level. Several years of a fascist regime under General Metaxas, established with the approval of King George II on 4 August 1936, and enemy occupation in the forties had reduced Greece to a state of a political and constitutional vacuum. There was no Greek authority, no Greek state except the quislings, security battalions organized by the Nazis and occupation forces. From the very beginning, however, acts of active resistance became a movement on a nation-wide scale. Thousands of partisans and a popular army were determined to fight until the final defeat of fascism, hoping to live in a state of liberty, equality and progress in a liberated Greece<sup>6</sup>. A new era was now within

<sup>5</sup> For a careful analysis of the effects of the wartime famine, see V.G. Valaoras, "Some Effects of Famine on the Population of Greece", *Milbank Memorial Fund Quarterly*, XXIV(3), 1946:215-234.

<sup>6</sup> The resistance movement was split into several organizations. The largest and most effective of these was the National Liberation Front (EAM) and its military arm ELAS (National Popular Liberation Army). It operated on a nation-wide scale and by the time of liberation had become a coalition including several leftist political parties. Among smaller resistance organizations, the most important were the National Republican

view. They were mistaken however. The threat of a communist Greece in the post-war world had become a nightmare for the fanatical royalists and the old-school politicians and British propaganda<sup>7</sup>, with the blessing of Moscow<sup>8</sup>, played a particularly active role, using all possible weapons in the most direct manner to promote British interests.

Confronted with attitudes of this sort, efforts to create a truly national government were never successful. Naturally such a situation could not last for long: the result was full-scale civil strife, throwing the entire Greek population into bloodshed, only a few weeks after the withdrawal of the Axis forces.

### III. Conditions at the Time of Liberation

By the early fall of 1944 the enemy occupation was almost over. Given the conditions already described, resolute, speedy and effective remedial measures were urgent. A massive relief programme had to be introduced at the earliest possible moment if catastrophic famine and widespread suffering like those of the winters of 1941 and 1942 were to be avoided. Clothing, housing and work would have to be found for hundreds of thousands of uprooted and homeless families who could not even afford the bare necessities of life. Over and above this, a hydra-like civil service had to be brought under control in order to effectively deal with the country's social and economic ills. Runaway inflation and massive unemployment had to be checked immediately. An end had to be put to black-market transactions and hoarding. It would also be necessary to adapt wage rates and salaries and use rationing and price controls for scarce basic commodities. Production and trade had to be got going again. Bank credits would have to be granted at favourable interest rates and raw materials,

Greek League or EDES led by General Napoleon Zervas, and the National and Social Liberation or EKKA led by Colonel Demetrios Psarros. Both groups were purely regional in their activities. Attempts for an all-inclusive resistance organisation were not successful. For a recent study, see D.H. Close (ed.), *The Greek Civil War, 1943-1950: Studies of Polarization*. London: Routledge, 1993; and H. Vlavianos, *Greece 1941-1949: From Resistance to Civil War. The Strategy of the Greek Communist Party*. London: Macmillan, 1991.

<sup>7</sup> On British policy toward Greece during the second world war see, for instance, E. Barker, *British Policy in South-East Europe in the Second World War*. London: Macmillan, 1976.

<sup>8</sup> For the famous bilateral percentage agreement, between Churchill and Stalin, on the division of the Balkans into permanent spheres-of-influence, see D. Yergin, *Shattered Peace: The Origins of the Cold War and the National Security State*. Boston: Houghton Mifflin Company, 1977, p.58ff. For an account of the whole process documented mainly from British official records, see E. Barker, "Greece in the Framework of Anglo-Soviet Relations 1941-1947", in M. Sarafis (ed.), *Greece: From Resistance to Civil War*. Nottingham: Spokesman, 1980, pp.15-31.

machinery, spare parts and other key items had to be available at once. Transportation and communications facilities had to be restored as soon as possible, thus enabling economic life again to function normally.

The Greek government-in-exile headed by George Papandreou, established in Cairo under the auspices of the British, returned to Athens from Italy on 18 October 1944. A week after reaching Athens, the government resigned and a new one was sworn in, again under the premiership of George Papandreou. The reorganized government, however, faced with an economy in a state of economic paralysis and fiscal chaos was unable to meet any of the difficulties that now confronted it: the immediate problems of the newly-formed Greek government can be summed up under six headings: first, relief; second, finance; third, political crime; fourth, foreign relations; fifth, public order; and sixth, national defence.

Inflation was rampant and political, economic and monetary uncertainty served to curtail economic activity. The administrative machinery was unable to function effectively and the Treasury received no normal revenues at all. The drachma was unacceptable for use by the public and gold was widely used as a medium of exchange and investment. Adequate commodity stocks to cover fundamental subsistence requirements were not available and neither were raw materials, fuel or spare parts. The monetary authorities had no concrete policy measures to confront hyperinflation and the Greek government continued and even intensified the issue of paper money in order, apparently, to cover Treasury deficits and secure a standard of living for public officials and employees. The results of this absence of policy were soon evident. Monetary conditions only worsened and commodity prices rose inexorably. The notes in circulation, which had reached 250 quadrillion by the time of liberation, increased further to 695 quadrillion by the end of October and to 6,280 quadrillion by 10 November. Similarly, the gold sovereign rate of exchange, which was 300 billion on 12 October increased to 105,000 billion on 10 November. Meanwhile, the index of the cost of living in Athens rose from 2,208,247,000 at the end of September, to 198,630,000,000 on 31 October and finally to 18,850,000,000,000 on 10 November (1940=100)<sup>9</sup>.

The general atmosphere is well illustrated by the following Byford-Jones report from Athens:

“There was no settling down to real work. In every sphere there was a deep-rooted chaos which no one could unravel. No one seemed capable of putting the bulk of the people to work, of stabilizing the drachma, of subduing the hysteria. There were more tommy-guns, Mausers, Luger pistols and Spandaus to be seen than shovels, picks and drills; more singing and oratory than thinking and planning; more recriminations than reconstruction.”<sup>10</sup>

<sup>9</sup> Cleveland and Delivanis, 1949, *op.cit.*, p.111.

<sup>10</sup> W. Byford-Jones, *The Greek Trilogy: (Resistance-Liberation-Revolution)*. London: Hutchinson, 1947, p.102.

#### IV. Early Monetary Inflation and British Officials

Allied military personnel and diplomatic establishments to Greece arrived in Athens just as the last of the enemy troops left the capital area. Shortly thereafter the British officials appeared fully aware of the dangers ahead and the currency crisis was recognised as the principal economic problem<sup>11</sup>.

On 21 October Harold Macmillan, British Minister Resident at the Allied Forces Headquarters, Algiers (1942-44) and Caserta (1944-45), during his trip to Caserta recorded:

“The final stage of inflation has been reached, when the value of the drachma has practically indeed completely disappeared. This means that all the shops put up their shutters, and buying and selling stops, with consequent hardship, misery and despair. The suggestion comes from Athens to send 200,000 gold sovereigns. But of course these will just go down the drain in a few days.”<sup>12</sup>

Foreign Secretary Anthony Eden, returning from the Moscow conference in the middle of October, recorded on 25 October during his visit in Athens:

“I am not too sanguine myself about the political situation, but it is the financial problem that dominates all. Unless we can get that right all our efforts will have been wasted.”

On the same day, he also sent a telegram to Prime Minister Churchill reporting that:

“Most immediately urgent question ... is runaway inflation which is so serious as to resemble the situation of Germany after the last war. As you know I do not pretend to understand these things but we have tried tonight, with the help of expert advisers on the spot, to see what we can do to deal with the problem. Unless we can deal with it, Papandreou or any other representative of the Government will be swept away and anarchy will take its place...”<sup>13</sup>

At the same time, the Foreign Secretary asked Churchill to send out a first-class Treasury expert to help the Greek government deal with the unhappy state of the economy. Churchill immediately dispatched Sir David Waley, Under-Secretary at the Treasury, to Athens. Before he arrived, the Foreign Secretary drove to the port of Piraeus to examine the situation with his own eyes. He recorded:

<sup>11</sup> On British policy toward Greece after liberation, see G.M. Alexander, *The Prelude to the Truman Doctrine: British Policy in Greece, 1944-1947*. New York: Oxford UP, 1982. See also the studies of H. Richter, *British Intervention in Greece. From Varkiza to Civil War: February 1945 to August 1946*. London: Merlin, 1985; and R. Frazier, *Anglo-American Relations with Greece: The Coming of the Cold War, 1942-47*. London: Macmillan, 1991.

<sup>12</sup> H. Macmillan, *The Blast of War, 1939-1945*. London: Macmillan, 1967, p.590.

<sup>13</sup> A. Eden, *The Eden Memoirs: The Reckoning*. London: Cassell, 1965, vol.III, p.489.

"Port position far from satisfactory. Daily clearance at present only one thousand four hundred tons which includes military supplies. They hope to get it up to two thousand five hundred by Monday [October 30th]. But we must do better than that."<sup>14</sup>

Eden's further report to Churchill from Athens, dated 27 October, reported:

"We have had a further day of discussion and action on supply and monetary problems. As a result I feel happier about the former ... The monetary business is devilish..."<sup>15</sup>

Before leaving Athens the Foreign Secretary also sent an urgent message to Macmillan in Italy to return as soon as possible and concentrate upon the desperate economic crisis confronting post-war Greece. Soon after Macmillan's arrival on 27 October the meetings at the British Embassy in Athens became almost continuous and a committee of economic and political advisers was immediately set up to coordinate British efforts. In Macmillan's words,

"We dispatched an enormous number of telegrams calling for cruisers, coffee, gold sovereigns, oil seeds, aeroplanes and various other commodities which were believed to be useful in a monetary crisis."<sup>16</sup>

Despite these British efforts to strengthen the government's hold over the worsening situation the Foreign Secretary, upon his departure to Italy, on 30 October wrote to Churchill that

"...there is nothing more that family friends can do for the moment, ... but I am by no means confident that this little country will be able to regain its stability without other and maybe terrible upheavals. It is so desperately poor in all natural resources and the Germans have so well planned their work of dislocation and destruction."<sup>17</sup>

The British also did their best to keep the American Embassy informed. The American attitude, however, remained one of non-involvement toward Greece and Ambassador MacVeagh "...took rather a detached interest."<sup>18</sup> MacVeagh clearly recorded in his diary on November 2:

"My idea, of course, has been not to put myself forward, but to let the British hold the stage, in order to make it fully clear here from the start that, as the President said, 'we are not involved.' Now I think I have let our cousins get out far enough ahead to permit me to take my normal course..."<sup>19</sup>

<sup>14</sup> *Ibid.*, p.490.

<sup>15</sup> Eden, 1965, *op.cit.*, p.491.

<sup>16</sup> Macmillan, 1967, *op.cit.*, p.593.

<sup>17</sup> Eden, 1965, *op.cit.*, p.492.

<sup>18</sup> Macmillan, 1967, *op.cit.*, p.593.

<sup>19</sup> J.O. Iatrides, *Ambassador MacVeagh Reports: Greece, 1933-1947*. Princeton, NJ:

On the afternoon of 3 November, Macmillan and his British expert advisers put before Papandreou and the EAM representative Professor Alexandros Svolos a memorandum on the heightening currency crisis. Svolos, in his capacity as Minister of Finance, asked for a loan and urged the British to increase supplies. MacMillan in reply to Svolos stated "...rather firmly..." that he would not ask his government to provide further assistance

"...unless it was quite clear that they [the Greeks] would carry out all things necessary, not only to make the stabilization work but to preserve it."

The message from the British was clear:

"...they [the Greeks] must cut down expenditures ... they [the Greeks] must tax, and they [the Greeks] must start saving and internal loans."

The Greeks agreed to the British advice and Papandreou seemed "...clearly grateful that I [Macmillan] pressed Svolos ... so hard." To restore the currency, it was also agreed to introduce a new drachma<sup>20</sup>.

Alongside these official statements, the economy continued to bother the experts and no positive results were being made. In his memoirs, Macmillan recorded that "...things had slipped a little...", and that "...the usual Greek confusion reigns." The problem, he noticed, was that

"No one stays 'put' for long. Waley gets them to agree to a scheme at the end of a long day's talk. But during the night they have lots of new and bright ideas, and so by the next morning he is back where he started."<sup>21</sup>

## V. The Monetary Reform of 11 November, 1944

It was obvious that runaway inflation could not be tolerated for long by the newly-formed Greek government. Monetary chaos prevented not only the economic recovery of the country, but even the distribution of essential supplies. Monetary rehabilitation was thus indispensable and on 11 November, 1944, a drastic monetary reform was attempted by the Government of National Unity under George Papandreou<sup>22</sup>. Its main provision was the conversion of

Princeton UP, 1980, p.638.

<sup>20</sup> Macmillan, 1967, *op.cit.*, p.594.

<sup>21</sup> *Ibid*, p.596.

<sup>22</sup> For a thorough analysis of the monetary reforms attempted in Greece, see G. Paterson, *The Financial Experiences of Greece from Liberation to Truman Doctrine, March 1944-March 1947*. Unpublished Ph.D Thesis, Harvard University, 1948 See also D. Delivanis, "Greek Attempts at Postwar Monetary Rehabilitation", *Ekonomisk Tidskrift*. LII(2), 1950: 84-97; A.J. Kondonassis, "The Greek Inflation and the Flight from the Drachma, 1940-1948", *Economy and History*, XX(1), 1977: 41-49; and C. Hadziioissif,

the previous currency into a new drachma, fixing the currency rate at 1 new to 50 billion old drachma and the exchange rate, in any amount exceeding 12,000 drachmas, at the ratio of one British Military Authority (BMA) pound, being equal to sterling, to 600 drachmas. Both currencies were made legal tender and so were BMA pounds from the date of liberation to 31 May, 1945<sup>23</sup>. Transactions in gold sovereigns were also permitted and a support price was declared at 2,850 drachmas in order to forestall any increase in its price.

Despite the many hopes, however, none of the conditions necessary for long-run economic recovery and future stability were obtained during the period prior to the outbreak of civil strife on 3 December, 1944. The Greek authorities did nothing to cut government expenditures and no serious steps were taken to collect tax revenues. Government receipts were almost non-existent and practically all government expenditures were financed by borrowing from the Bank of Greece. The commercial banks were idle and nothing was provided to finance agriculture or industry by the Bank of Greece or the government. There had been no reconstruction and unemployment was greater than during the period of enemy occupation. The cabinet took no measures aimed at controlling prices or determining wages, nor was anything done to modernize the civil service.

Meanwhile, by the end of November Greece's political situation had severely deteriorated. A major political crisis was at hand and on 1 December the EAM ministers resigned from office. On 3 December a peaceful mass demonstration was fired upon by the police and, shortly thereafter, violent fighting broke out in Athens between ELAS forces on the one hand and Greek government British troops on the other<sup>24</sup>. The National Unity Government collapsed and, a few days after the outbreak of the fighting, the prospects of more inflation were imminent: economic and financial activity came to a halt, prices of essentials increased tremendously, relief operations were suspended, taxes were not collected and government expenditures had to rely on advances from the Bank of Greece during the entire period of the civil war.

On 11 January, 1945, the conflict ended with the conclusion of an armistice<sup>25</sup>. Immediately thereafter one of most urgent tasks was to impose

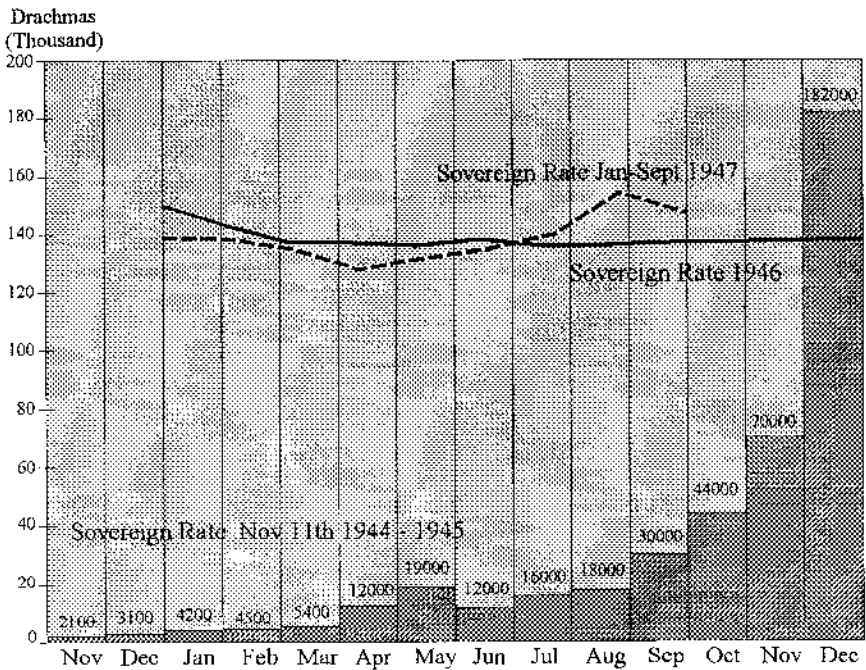
"Economic Stabilization and Political Unrest 1944-1947", in L. Baerentzen, J.O. Iatrides and O.L. Smith (eds.), *Studies in the History of the Greek Civil War, 1945-1949*. Museum Tusulanum Press Copenhagen, 1987, pp.25-40.

<sup>23</sup> BMA pounds were not legal tender in Great Britain nor convertible into sterling pounds.

<sup>24</sup> For an eye-witness testimony of the events of December, 1944, see Byford-Jones, 1947, *op.cit.*; and for a more complete analysis, see L. Baerentzen, "The Demonstration in Syntagma Square on Sunday the 3rd of December, 1944", *Scandinavian Studies in Modern Greek*, 2, 1978:3-52; see also J. Iatrides, *Revolt in Athens: The Greek Communist "Second Round", 1944-1945*. Princeton, NJ: Princeton UP, 1972.

<sup>25</sup> The signing of the Varkiza Agreement officially ended the civil war on 12 February, 1945.

order in Greek fiscal and economic affairs. Unfortunately, for five months following the civil war successive Greek governments failed miserably to introduce order into the desperate financial situation. Huge government deficits and further monetary inflation were likely to cause another collapse of the Greek monetary system. The note circulation within a six-month period between 11 November, 1944 and 31 May, 1945 increased from 126 million new drachmas to 25,762 million new drachmas, while the price of the gold sovereign increased from 2,100 new drachmas to 19,000 new drachmas. Similarly, the cost of living was several times that of November 1944 (Fig. 1).



General economic activity continued to be severely handicapped by the lack of essential materials and supplies, and industries had no working capital. Commercial banks were unable to issue credits to agriculture or industry, or even to the Treasury, and the Bank of Greece was called upon to provide a large amount of credit assistance. Productive credits, however, were negligible in amount. Imports increased very slowly, while Greek exports were only nominal. Remittances were not received from abroad until early March 1945 and saving deposits were not accumulating with the banks. In fact, the public preferred to make easy profits through engaging in speculative transactions in gold sovereigns rather than making productive investments. Gold thus continued to be a medium of exchange, saving and investment. Successive Greek

governments took no action to control prices nor to formulate a comprehensive wage policy.

## **VI. From Varvaressos' Reform to the London Agreement**

By early June the economic and financial situation was desperate. In view of this development a dynamic, vigorous and intelligent leadership was essential in order to restore economic order. On 2 June Kyriakos Varvaressos, a professor of economics who had served as governor of the Bank of Greece, was appointed Minister of Supply and Deputy Prime Minister in charge of the Ministries of Finance, Trade and Commerce. Varvaressos immediately made known his recovery programme and the second act of monetary reform was passed on 4 June, fixing the new exchange rate at 2,000 drachmas to the pound sterling and 500 to the U.S. dollar. Based on the belief that the commodities and materials made available by foreign aid and the UNRRA (United Nations Relief and Rehabilitation Administration)<sup>26</sup> relief supplies would be enough to meet both current consumption and reconstruction and rehabilitation requirements, he took measures to impose import restrictions, prevent the disposition of privately-held foreign-exchange balances and forbid the use of gold sovereigns and foreign banknotes between individuals in domestic transactions. At the same time, a bold attempt was made to establish a more equitable distribution of the available national income. He therefore took measures to raise the real income of the less-privileged, applying an extensive system of quotas and price controls, imposing commodity rationing, increasing the taxes on the wealthy and finally monopolizing the available supply of essential agricultural products by the government. More specifically, Varvaressos' attempts to achieve his objectives included the following measures: wages and payments for every type of employee were increased substantially; industrialists and a great number of

<sup>26</sup> Already at the time of Greece's liberation in October 1944, both the United Kingdom and the United States showed an active interest in providing emergency help through the British dominated Military Liaison (ML) programme. UNRRA, took over from ML on 1 April, 1945, and handled aid up to 30 June, 1947, representing the main form of economic and technical assistance to Greece. Its main aim was to increase the calorie consumption of the population. It also supplied industrial equipment such as machinery and raw material, clothing, medicines and agricultural supplies such as fertilizers, pesticides, agricultural equipment and livestock. Up to the time the administration ended its operations in Greece, the total aid amounted to \$347 million and 2,830,138 tons of supplies were imported into the country. For details, see G. Woodbridge et al., *The History of the United Nations Relief and Rehabilitation Administration*. New York: Columbia UP, 1950, pp.94-137. On the political aspects of the aid programme to Greece, see A. Laiou-Thomadakis, "The Politics of Hunger: Economic Aid to Greece, 1943-1945", *Journal of the Hellenic Diaspora*, 7(2), 1980: 27-42.

merchant and professional people were subjected to a special monthly tax; clothing was added to the list of goods on a ration basis; and all goods imported by the UNRRA were distributed at low prices, while raw materials imported by the UNRRA were manufactured at the expense of the Treasury. The government also purchased the available supply of olive oil and controlled its distribution in order to prevent further price speculation.

The effect of Varvaessos' reform programme was immediate. By June the price of the gold sovereign fell to 12,000 drachmas and by July had risen only to 16,000. Retail commodity prices declined and several essential articles were even sold below the official rate. In early August, however, the government's economic policy received its first set-back when basic foodstuffs became scarce and prices began to rise again. The administrative machinery was, unfortunately, unable to enforce Varvaessos' reform programme. Soon real wages dropped sharply and government expenditures rose to new peaks. By late August the hoarding of basic foodstuffs became more marked and commodity prices continued to rise sharply, while the price of the gold sovereign had slipped back to where it was when Varvaessos introduced his policy. Varvaessos then resigned from office in despair on 2 September, accusing Greek business interests of undermining his efforts.

Following Varvaessos' departure the economic, public finance and currency problems of Greece deteriorated at an appalling rate. Successive Greek governments promised to take drastic action during the following four months but actually nothing was done to stop the general chaos that reigned after Varvaessos' resignation despite the rapid loss of all control. No special attention was given to Greece's monumental economic and financial problems, and a further flight to gold was a fact. The devaluation of the drachma continued without stopping and the price of the gold sovereign soared. Meanwhile, as the cost-of-living increased, so did public unrest. Strikes were declared as the workers and civil servants demanded higher pay and successive Greek governments were attacked incessantly between September and the following January. By the end of the year, however, the market was beyond the government's control and Greece was soon in the throes of another catastrophic inflation. The Sophoulis government, unable to adopt any plausible measures to reverse the prevailing economic trends, warned that unless something drastic was done, chaos and panic would prevail. Incapable of advancing solutions, Greece finally turned once more to the United Kingdom for additional financial aid and advice.

By January 1946 the country had reached the brink of economic collapse. A monetary reevaluation was thus deemed unavoidable. Greece called on the United Kingdom for assistance and an agreement between the governments in Athens and London was concluded on 24 January, the Anglo-Hellenic Convention. According to the provisions of the convention Britain provided Greece a £10 million loan and technical assistance in the fields of economics, finance and industrial development. The British government also dropped any

claims against wartime loans worth £46 million and undertook the sending of an economic and financial mission to the country. Greece, in return, vowed to cut budget deficits, to increase prices from the sale of aid goods, to readjust wages and salaries and to create a system of price controls. Moreover, the opening of a Bank of Greece account was agreed with the Bank of England which would accommodate the 10 million loan and 15 million from the foreign exchange balances of the Bank of Greece as currency reserves. Above all, Greece pledged to set up a Currency Committee in the Bank of Greece office in Athens in order to exercise control over monetary, credit and foreign exchange policies. In addition, the Greek government fixed the foreign exchange value of the drachma at 5,000 drachmas to the U.S. dollar and 20,000 to the pound sterling and consented to stabilize the drachma in terms of the dollar and pound sterling through open-market operations in gold sovereigns and the sale of foreign exchange to any importer who applied for it.

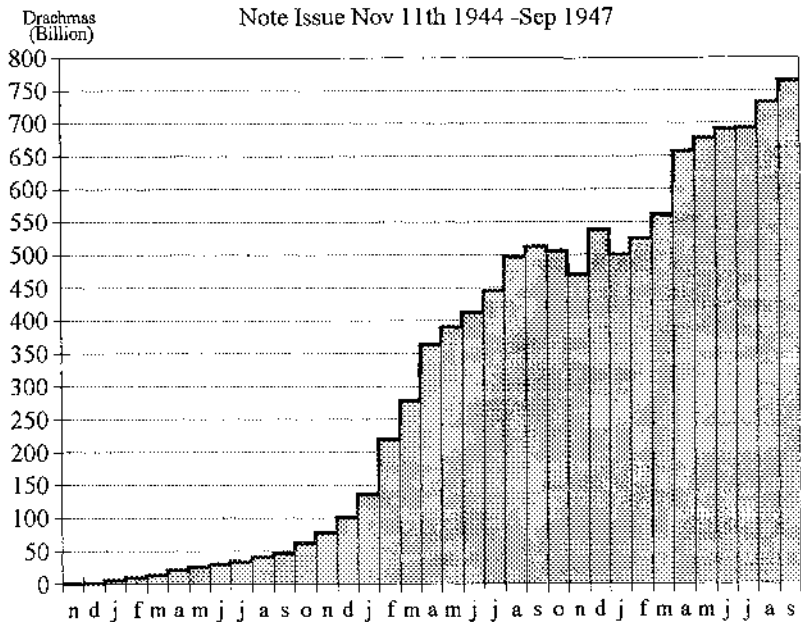
Following the signing of the convention the rise in prices did not reach the hyperinflationary proportions of 1945, the cost-of-living fell and state receipts rose substantially. The dangers of inflation still existed, however, and the drachma began to slip again in spite of all new controls. Thus, within a year the cost-of-living again reached its level of January, 1946, while the volume of notes in circulation went up from 101 billion drachmas in December 1945 to 538 in December 1946 and 764 in September 1947.

The economy was thus nowhere near stability and the government elected on 31 March, 1946, let matters run their course. Material and economic reconstruction had hardly begun and inflation was held off only by the sale from the Bank of Greece of large quantities of gold sovereigns. Nevertheless, a certain amount of progress was made and the early part of 1946 saw a slow but steady recovery in many branches of the economy. Agricultural production showed signs of getting back to its normal level and in 1945 was about half the average for the 1936-1939 period, whereas in 1946 it went up to 80 per cent. The production of cereals showed extensive improvement, and tobacco production in 1945 reached 48 per cent of the 1938 production and 57 per cent in 1946. Olive oil production reached about 80 per cent of the 1938 production and cotton about 60 per cent of the 1938 production. Industrial recovery was much slower and in 1946 production amounted to just over half of the pre-war level<sup>27</sup>.

In the meantime, the British could no longer carry the financial burden of aid to Greece after 31 March, 1947, experiencing severe economic difficulties of their own, and UNRRA operations were planned to come to a close in June 1947. A psychology of helplessness and inertia prevailed throughout Greek political circles, and several times the Greek government asked the United States for increased financial aid. Early in January 1947 Tsaldaris resigned and

<sup>27</sup> See W.O. Candilis, *The Economy of Greece, 1944-66: Efforts for Stability and Development*. New York: Praeger, 1968, pp.36-39.

a coalition government was formed on 24 January under Dimitrios Maimos, an elderly Populist and ex-governor of the National Bank of Greece. The new cabinet brought about no change in policy. The economic situation was essentially the same as in the autumn of 1945 and state finances were running dangerously low. Meanwhile, in the political sphere communist guerilla activity was assuming progressively larger proportions and the political survival of the Greek national government was at stake.



Realizing that the country was on the verge of utter collapse, the first of a series of American economic missions was sent on 18 January, 1947, to evaluate the country's foreign-aid requirements and submit recommendations regarding long-term economic solutions. Paul Porter was selected to head the mission. Large-scale economic and military aid was necessary and on 3 March, 1947, Maximos addressed another appeal to the United States for emergency help. President Truman responded in his history-making speech to Congress on 12 March, 1947, by requesting the appropriation of \$400 million in military and economic aid to Greece and Turkey, \$300 million of which was to be made available to Greece. The aid bill was approved by Congress on 15 May and signed by President Truman on 22 May, 1947. Of this sum, \$148,877,070 was to be spent on military expenditures and \$145,945,000 on reconstruction and stabilization, the rest being spent on administrative expenses. The aid programme would end in June 1948. The relevant executive agreement was signed on 20 June in Athens and a large mission known as AMAG (American

Mission for Aid to Greece) was sent to administer the aid and exercise general supervision and control of all vital networks in setting monetary, fiscal and commercial policies<sup>28</sup>.

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<sup>28</sup> On the long-term significance of the Truman Doctrine, see the interesting study by S.B. Thomadakis, "The Truman Doctrine: Was There a Development Agenda?", *Journal of Modern Hellenism*, 1989:23-51. See also the recent studies by L.S. Wittner, *American Intervention in Greece, 1943-1949*. New York: Columbia UP, 1982; H. Jones, *A New King of War: America's Global Strategy and the Truman Doctrine in Greece*. New York: Oxford UP, 1989; and J.V. Kofas, *Intervention and Underdevelopment: Greece during the Cold War*. The Pennsylvania State UP, 1989.

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