

Monetary Modernisation in Greece: Bimetallism or the Gold Standard (1833-1920)*

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Introduction

Monetary history has not been the object of much research by contemporary economic historians in Greece. Work in this area is at its initial stages and therefore hypotheses and conclusions can only be tentative.

Monetary arrangements and institutions which were established in Greece mainly in the second half of the nineteenth century are seen as part of the more general process of development and integration of the new nation-state in the world system, on the one hand, and in Europe, on the other. Though they followed closely ideas and patterns already existing in Western Europe, once transplanted they did not function in similar ways but were fashioned according to the needs and the possibilities of the particular economic and political environment they encountered. At the same time, they had a direct impact on development itself.

What follows is an attempt to discern the decisive moments in this process in the hope that questions with regard to the impact of universal systems on Greek development may be elucidated. Although the gold standard became an option, for most of the time until the 1920s it coincided with forced circulation. Limited

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convertibility was reinstated only after 1910. It represented the last phase of a long process - often quite contradictory - towards the introduction of a coherent monetary system.

The question is of particular importance today when once again universal systems, such as the European Monetary Union, are being devised and countries with different degrees of development are called on, or wish, to participate at what seems, at least initially, great pain for their economy.

Initial attempts to establish a monetary system.

The initial stages of Greek monetary history followed closely political developments. Greece was under Ottoman rule until 1821 when it emerged as an independent nation-state. During that time there was no national monetary unit. Instead, the Turkish silver *piastre* was the official currency in the whole of the Ottoman Empire including Greece¹. When the Greek War of Independence broke out in 1821, the country was in monetary chaos. The Turkish *piastre* was undervalued and a host of silver and gold coins of other European nations such as the Spanish *piastre*, the *thaler* of Maria Theresa, the *zwanziger*, the Venetian golden *tsekini*, the Portuguese *milreis*, were circulating, often merely for speculative reasons. Coins were exchanged on the basis of their metal content and counterfeiting was a constant problem. Due to the scarcity of coinage and the large demand for it, values were high and fluctuated to such an extent that the provisional Greek government found it necessary to publish rates regularly, fixing parities in relation to the Turkish *piastre*. In 1822, a law was promulgated by the provisional government of the independent state launching a bond loan in Turkish *piastres*. It was stipulated that the bonds could also be used for the purchase of national land or for other commercial transactions functioning, in a sense, as an early form of paper money. Until the new Greek state received official

¹Turkey had a bimetallic system. Gold and silver coins were in circulation.

recognition by foreign powers in 1823, no national currency existed but several proposals for the establishment of a new monetary unit were made, motivated as they were by both national and economic reasons. In 1824, the first foreign loan (English) was granted to Greece.

When Ioannis Capodistria became first Governor of Greece in 1828, he found the State Treasury empty and he immediately proceeded to issue bills of exchange to the amount of 1,800,000 *piastres* and with expiry dates of up to ten months. The bills would also be acceptable for payments to the Treasury instead of cash for up to one third of the amounts due². Most of those payments were basically effected for the purchase of national land, whereas for other market transactions various Turkish and other foreign coins were used. Capodistria also tried to establish a bank and eventually in 1830 the National Finance Bank was founded as a state bank in which King Ludwig of Bavaria, J. Eynard, a Philhellene banker, Capodistria himself, and other investors contributed sums reaching the total of 100,000 Spanish *piastres*³. The bank was given permission to print the first inconvertible paper notes of 5,10,50 and 100 "Phoenix", for a total amount of 3,000,000 Ph. This was a new monetary unit of a universal symbolic value, the silver content of which was 1/6 of the Spanish *piastre* (proof 900 o/oo). At the same time it was declared that one third of any transaction should be carried out in notes and two thirds in specie. Gold coins were also envisaged but the idea was soon abandoned because of inadequate resources. Only a very limited quantity of silver coins were minted, while the state continued to mint many more copper coins used for smaller transactions. The bank, however, never really functioned as a proper financial institution but rather as a department of the Treasury⁴

² By virtue of Decree KZ/3851, 17.6.1831.

³The Spanish *piastre* enjoyed a wide circulation, coming second in preference to the Turkish coins.

⁴The bank was theoretically a mortgage bank and its shareholders prominent statesmen of the period. Though some of the most fertile lands were mortgaged the fact remained that these could not be valorised because technology and infrastructure left a lot to be desired. When this capital was absorbed by the state, confidence collapsed and the bank went bankrupt in 1834.

and was dissolved in 1834. Meanwhile, the phoenix was unable to gain the public's confidence or to replace foreign coinage. Politically the country was still in turmoil because of a civil war that ultimately cost the life of its Governor, Capodistria, and the monetary reform, along with other measures of modernisation to which he was personally committed, was postponed until later.

With the consolidation of the new state, in 1833 a new national monetary unit, the *drachma*, was introduced and Greece opted for a bimetallic system⁵ fixing the gold/silver ratio at 1:15^{1/2}. The new unit was heavier than the Phoenix, but lighter than the *franc*, and had a content of 4.477g of silver. Again, emphasis was put on its symbolic value as it was similar to the ancient drachma introduced in Athens by Pericles during the fifth century b.c. while it resembled no other currency in Europe⁶. As soon as this new unit was established, the government prohibited the circulation of Turkish currency but despite prohibition the latter was still widely used in the market, enjoying higher than official values. To counteract this phenomenon, by virtue of the same decree that established the silver *drachma* as the new national currency, several other foreign coins were also allowed to circulate on the basis of an exchange rate fixed in relation to the *drachma*. These rates, however, did not take into consideration the age and degree of wear of foreign currencies. Consequently, fixed parities meant that the government lost due to the cost of manufacturing and having to replace coins that disappeared constantly. Foreign coins, having a higher nominal value, gradually replaced the *drachma* in most market transactions. In any case the amount of silver coins

⁵ By Decree of 8, 20 Feb.1833. The official unit was the silver *drachma*. Provisions were also made for the minting of gold coins in denominations of 20 and 40 drs. but only a few (20 drs.) pieces were actually minted. Copper coins of smaller values were minted in abundance as incomes in general were low. Silver coins were used for international transactions.

⁶ The silver content of the ancient *drachma* was 4.35g resembling the Spanish *piastre*. The French *franc* had a silver content of 5g, the English pound was equivalent to 25ff, the Austrian *florin* to 2.5ff. The Greek currency had no exact equivalent in any other European money.

minted in Greece was very small and most transactions were carried out in foreign currencies.

This situation prevailed until the mid-1840s when fiduciary money appeared. After the failure of the first banking experiment, negotiations were again underway with foreign financiers (and Philhellenes) for the establishment of a proper bank, as independent of the government as possible⁷. After a long incubation period, the National Bank of Greece (NBG) was eventually founded in 1841⁸. A joint-stock company, it immediately acquired the right to issue notes and to discount bills. Soon this right became an exclusive privilege with a duration of 25 years. Notes were issued up to a proportion of 2/5 of its share capital, i.e. 5,000,000 drs. (5,000 shares) and against 1/3 of metal reserves in silver and copper⁹. Nominal capital was later increased and additional shares were issued above par so that the difference could be used to increase reserves. Greece was then emerging from the ruins of war and capital was badly needed. The bank soon began to grant mortgage loans while savings (in 1845) and long-term deposit operations (1853) were also gradually introduced. Eventually all other banking functions, including business in stocks and securities - almost unknown until then in the country - were added. From then on, Greek monetary history became almost inextricably linked with the history of this bank. As far as the general importance of the bank is concerned, it should be noted that its establishment gradually improved commercial transactions. The discount rate was fixed at 8% and this put a stop to the exorbitant interest rates that had so far prevailed in the country - sometimes

⁷ A law was promulgated as early as 1836 'concerning the foundation of a National Bank' which however was never put into force.

⁸ Laws of 30 March 1841 and 19 August 1841. The Swiss banker, J. Eynard, and his close friend and associate, G. Stavros, were instrumental in getting the affair off the ground. Eynard became Honorary Governor of the Bank and Stavros assumed the general management of the organisation. In 1849 he was made Governor for life. By virtue of the second law, the Bank was allowed to operate with a capital of 1,500,000 *drachmae* and acquired the exclusive privilege of issuing bank-notes for 25 years. The government owned 20% of its capital.

⁹ The first law stipulated a ¼ coverage. The law of foundation changed it to 1/3.

reaching 30-40%. The privilege to issue notes allowed the bank to expand and penetrate into the countryside. At the same time, through the discount rate, it set in motion a process of diffusing a monetary system based mostly on paper money. The first bank notes were printed in France in 1842 in denominations of 25, 50, 100 and 500 drachmae. According to the bank's first balance sheet a total amount of 438,000 dr. in convertible bank-notes was issued. Soon, in 1844, NBG notes of 25 and 50 drs. were declared legal tender and began to be accepted by the government for all payments to the state¹⁰. Until 1846, the system functioned normally; public borrowing had not started yet, as credit was directed mainly at the private sector.

For a long time, however, confidence in the new system was low, counterfeiting was very common as was speculation in the form of purchasing bank notes with depreciated Turkish *piastres* in order to present them later to the bank for conversion. Although there were initial difficulties and objections mainly from big landowners and merchants who at the same time were local lenders, this did not prevent bank money from being gradually accepted. In some areas notes were overvalued by about 2 to 3% against metal currency¹¹. Paper currency continued to maintain *grosso modo* its value because, even when convertibility was in force, it was practised only in Athens¹². Overvaluation prompted businessmen to use bank notes in their transactions with the government rather than present them at the bank for conversion first. In general, specie especially gold was

¹⁰ Valaoritis (1902), Athens

¹¹ Historical Archives of the NBG (HANBG) Balance Sheet, 1844. Overvaluation of both banknotes and various currencies may have also been the result of the particular situation prevailing, especially in local markets e.g. Syros, whereby values were estimated in relation to copper, copper coins being in reality the only Greek coins circulating in the country and extensively used due to the scarcity of silver and gold drachmae. A host of foreign copper coins were also imported. The flight of metal currencies and NBG's tight policy with regard to note issue, particularly after 1848, led to the systematic overvaluation of bank notes. This trend was reversed after 1879 when convertibility was suspended and note issue was increased. For a detailed analysis of this phenomenon cf. Kougeas (1992), pp. 156-177.

¹² Branch offices were not obliged to convert notes other than those they had put into circulation themselves.

very rarely used, or rather, the quantities used were very small compared with the considerable amounts of foreign exchange¹³. Gold coins were more frequently found in the towns of Corfu, Syros, Piraeus which had direct contacts with foreign markets¹⁴, and most brokers calculated their transactions on the basis of foreign exchange. The internal market, still largely fragmented, continued to operate on the basis of a host of silver coins.

Convertibility regime and crisis

The situation grew much worse when in 1848 the crisis that overtook most European countries economically and politically also struck Greece, with serious effects on trade. Exports diminished and the price of currants - the main Greek export crop - dropped dramatically. Large quantities of coinage which until then had given the Greek system a certain elasticity fled the country when most people found that they had to settle their debts abroad in gold or silver. Speculation also ensued and the bank's position became difficult as this threatened to absorb all its metal reserves. Rumours that two recently announced bankruptcies were connected with the bank caused a run on it and, whereas in February 1848 metal reserves totalled 626,000 drs. against notes in circulation of drs. 1,870,000 a month later, at the end of March they stood at drs. 215,000 against 1,564,000 respectively. The bank took immediate action: monetary restrictions followed as all new credit contracts were stopped and the government was asked to suspend

¹³ Most international transactions were effected by means of foreign bills of exchange (in French *francs* or English pounds) of a three-month duration at an interest rate of 4-6%. Bills were issued either by merchants or by banks. They developed along with trade and filled the void created by the lack of sufficient quantities of metal currencies.

¹⁴ Zografos (1876), p. 16

¹⁵ Law of 4 April 1848 suspending convertibility for a duration of 5 months. In August a new law prolonged the suspension until April 1849. The Bank was obliged to pay 8% interest on any bills presented/deposited and acquired the right to issue 10 dr. notes of a total value of up to 500,000 drs. Cf. NBG Annual Report 1848. In 1848, France also suspended convertibility.

convertibility¹⁵. The government declared the suspension for five months by virtue of Law ΠΑ 4.4.(18.4.)1848 and an upper limit for note issue was fixed at drs. 1,500,000. Despite the beneficial effects this had for the bank, which was no longer obliged to respect the specie/note ratio and was thus free to expand note-issue, this also meant a shrinking of resources for market transactions. As the crisis continued a further extension was given to the forced circulation regime until April 1849 in order to control the flight of resources and allow the bank to accumulate sufficient coin and silver reserves. By August of the same year, banknotes in circulation reached 414,000 drs. against specie of 253,000 drs. Suspending convertibility was equivalent to legalizing paper money since banknotes were now becoming official government money, even if the prime purpose was to rescue the bank. In exchange for the government's support, the bank assumed the obligation to grant the government a loan of drs. 500,000 by issuing new ten-drachmae notes and withdrawing from circulation coins of an equivalent value¹⁶.

The suspension of convertibility was a measure demanded and defended by the National Bank of Greece in which the government acquiesced. Had the bank not adopted this policy it would have had to curtail credit seriously when it was most needed and this would have deepened the crisis even further. This policy, however, was bound to raise objections from various quarters. In parliament it was stressed that the bank's privileges were excessive. Implicitly statements were also made about the monetary system¹⁷. Paper money in the form of NBG notes was called "thieves' money", being a sort of bond without interest or expiration date¹⁸. The bank, through its official Ioannis Kehagias, insisted that bank money was neutral and should not be used as paper money or state money.

¹⁶ Petrakis (1985) p. 81.

¹⁷ Petsalis, A., two articles in the newspaper *Athens*, 13 May 1848 and 20 May 1848; Kehagias, E., article in the same newspaper, 3 June 1848; Negris, K., *Athens*, 31 May 1848; Kehagias, *Athens*, 9 June 1848.

¹⁸ This confirms the assertion that in Continental Europe (with the exception of France) banknotes were supposedly viewed with suspicion as being worthless paper money. Born (1983), p. 11.

Bank notes were issued as a means of facilitating market transactions only in response to public demand for credit.

The 1848 crisis set forth a practice which was to be repeated on many occasions later. Although the regime of forced circulation entailing the suspension of convertibility was imposed by the government at the suggestion of the bank and functioned as a defence mechanism for the latter, in the future it was to be used by the government which covered budget expenditures by authorizing excessive circulation and by printing inconvertible money.

The years that followed the crisis were still difficult. A bad winter in 1850 and bad crops in 1851 and 1853 especially for vineyards which were afflicted by disease, an embargo of Greek ports by the British fleet in 1850 and wider political unrest as of 1854 meant that the generally unstable situation continued to influence the export of metal currency from the country. The bank managed, however, to check the outflow thanks to the capital resources it possessed outside Greece which allowed bills of exchange to be issued without touching its reserves and without raising the interest rate. Also, the bank succeeded in obtaining the right to use long-term deposits for credit purposes in exchange for a new loan granted to the government in 1853. The 'bargaining' process between the state and the NBG was another feature of the system: In 1859 mortgage credit was added to its operations greatly benefiting (and quieting) landowners who had for a long time resisted the bank. In 1861 the right of issue was renewed for another 25 years while new loans were advanced to the government. The bank's share capital was regularly increased to reach in 1866 the amount of drs. 15,000,000 and the branch network around the country was extended¹⁹.

The period 1859 to 1867 could be characterised as the first expansion phase of the NBG, while at the same time the relationship with the government was becoming closer, especially after the constitutional reform of 1864. By 1867 the government's debt to the

¹⁹ Except in the Ionian Islands where the Ionian Bank Ltd. held the right of issue.

bank had reached drs. 9,521,943. The following year was a turbulent one for Greece on account of the Cretan revolution, and a further loan was issued bringing the government's debt to 15,779,275 drs. However, these arrangements proved inadequate and further demands were made by the government for financial assistance which eventually led to a sharp conflict. To the bank's refusal to oblige, the government responded with the threat to pass a Monetary Law stipulating an immediate suspension of convertibility which, as mentioned earlier, had been restored in 1849. News of the proclamation of the Monetary Decree on 23 Dec. 1869 and of the impending suspension of convertibility led once again to a run on the bank. In one week (23 to 30 December 1868) notes of drs. 645,000 were exchanged. In view of the danger involved, the bank entered into fresh negotiations with the government which eventually led to a compromise²⁰. The Monetary Decree was rescinded, the issuing banks (the National Bank of Greece and now also the Ionian Bank, a British Bank which since the annexation of the Ionian Islands by Greece in 1864 had its issuing right also extended to the rest of the country) lent the government a total of drs. 6,000,000 in specie and 15,000,000 in bank notes. Despite the government's promise, however, convertibility of bank notes was suspended again and the upper limits of note issue and circulation were fixed at 36,000,000 drs. for NBG and 12,000,000 drs. for the Ionian Bank including government loans in bank notes. The non-convertibility regime remained in force until 1870. It was eventually lifted after concerted measures were taken to limit its duration. Once the state of emergency was over (although the Cretan revolution had failed and Crete remained under Turkish rule) the government did limit its borrowing and reduced the maximum circulation of paper currency²¹; it also negotiated with the National Bank the issue of a loan to the amount of 9,000,000 *francs* and paid back to the bank the

²⁰ An agreement was signed on 30 Dec. 1868 and ratified by Royal Decree on the same day.

²¹ Historical Archives of the NBG (HANBG), Annual Report, 1869.

greatest part of advances in specie made earlier. Through curtailing its credit and keeping note circulation in check the bank managed, to maintain a high specie/note ratio²². In the mid-1870s paper money in circulation was estimated at 40 million drs.²³ and the government continued to borrow relatively freely. Overall, since the mid-1850s up to the 1870, the government absorbed an ever greater portion of total credit whereas there was a serious reduction in resources allocated to the private sector. Moreover, the latter absorbed mainly short-term credit, long-term credit going primarily to the government²⁴. The situation, though yielding considerable returns to the bank, had rather negative consequences for the rest of the economy which remained starved of capital resources.

Monetary reform and the Latin Monetary Union

It was generally wished and assumed that Greece should become an integral part of Europe and this could be achieved by adopting modern institutions. In the mind of many economists and politicians of the time joining the Latin Monetary Union was a way to induce modernization of the monetary system which would in turn have direct effects on trade and foreign commercial relations. As elsewhere in Europe, increasing trade - and agricultural production - was seen in Greece, too, as a means that would stimulate the development of the national economy.

Greece joined the Latin Monetary Union (LMU) in April 1867 but the agreement was not put officially into effect until much later, in November 1882²⁵.

Proposals for a new monetary system had begun long before that

²² According to I. Valaoritis on 30 June 1870, against notes in circulation amounting to Drs. 25,740,930 metallic reserves stood at 12,995,343 in addition to 2,630,520 *francs* abroad, yielding a ratio of over 60%. *op. cit.* p. 56.

²³ Zografos (1876), p. 51

²⁴ Petrakis (1985) and Thomadakis (1981) p. 123.

²⁵ The Latin Monetary Union was dissolved on 31 Dec. 1926. Most of the member countries, including Greece, stabilised their currency after that date.

date and as the implementation of the system was delayed, they continued until well into the 1880s. The ideas put forward concerned both the actual policy to be followed and the reasons for the delay.

Most of the exponents of these ideas were related in some way or other to the National Bank, this institution being the only one adequately informed about economic and financial matters in the country and capable of designing policies. As money matters were related to the issuing privilege of the bank, for a long time the question of monetary reform was considered a banking question, whilst the role of the government seems to have been underestimated. Opponents of the reform usually stressed the close relation between monetary matters and banking interests and argued that monetary reform would only benefit the National Bank. Advocates of the reform pointed primarily to the fact that Greece was isolated and that there was a need for the Greek currency to circulate outside the confines of the nation. They also emphasised the imperfections in the early regime which complicated transactions and made constant re-fixing of the exchange rates imperative. In 1864 during the debate in Parliament after the introduction of the new monetary bill, Efthymios Kehagias²⁶ underlined the role of the imperfections in the system which caused the flight of silver and gold and stressed the need for modernization by adopting the French model. This could be done by increasing the value of the *drachma* (its silver content) by 10% to bring it in line with the *franc*. This adjustment also meant that bimetallism would not be abandoned but that Greece from then onwards would follow

²⁶ Efthymios Kehagias was the first Greek to succeed the initial French director of the National Bank of Greece, L. Lemaître. A specialised and well travelled economist, he soon became deputy Governor and was responsible for many innovations such as the introduction in 1845 of the savings department and later mortgage and rural credit operation. He became a member of Parliament in 1853 and remained an MP until 1877. He was the first to introduce the subject of monetary reform in the House in 1855. He served as Minister of Finance in 1863 and 1867 and became Speaker of the House until 1869 while holding the deputy governorship of the NBG. In 1864, he introduced the bill for a new monetary system to the House. On the whole, it could be argued that his action in Parliament was multi-dimensional serving both the interests of the bank and the interests of the nation.

France in monetary policy matters. Others stressed the fact that Greece had very close commercial relations with Britain where it exported most of its currants and from whom it imported most of the industrial goods it needed. Again, it was emphasized that a monetary unit along the lines of those used by Greece's major commercial partners was necessary. The obvious choice would have been the English pound but the English currency was not decimal and was judged to be complicated. The French monetary system was deemed 'scientifically' sound; the *franc* was decimal and resembled the *drachma* while on the other hand it reflected the wide esteem that French revolutionary ideology still enjoyed worldwide in less developed nations. Besides, it must not be forgotten that French ideology had strongly influenced many of the precursors and leaders of the Greek struggle for independence and the establishment of modern institutions: A close relationship with France was very early on established by the National Bank; among the first managers of the organization there were French experts and bank officials, like Kehagias, who had also been trained in France.

Though some misgivings were expressed with regard to the bimetallic nature of the proposed system they were not considered serious enough, as no one could foresee in the 1850s and 1860s the subsequent devaluation of silver. Experts like Ioannis Soutsos, a professor who had also been a member of the NBG General Board (an equivalent to the Board of Directors), while sharing Kehagias's concern about the economic isolation of the country, criticised bimetallism more generally. Because of the fluctuation in the relative value of gold and silver, devalued currencies were flooding the country, and Greek currency fled while debts were settled in overvalued money. He also used the example of France which before joining the LMU suffered from a constant flight of silver which was absorbed by foreign markets and was then substituted domestically by gold. He confirmed that the adjustment of the Greek currency envisaged in Kehagias's bill would offset these shortcomings in the same way that France had solved the problem by reducing the metallic value of coins of smaller denominations (one and two-franc

coins). Others still advocated the straightforward introduction of government paper currency. Their proposal included the creation of a central (state) bank with a 10 million drs. capital in paper inconvertible currency, that would operate side by side with the National Bank of Greece. It was felt that this system would guarantee the maintenance of the status quo, by guaranteeing the value of landed property. Landowners, who were also usually merchants importing goods from abroad, generally supported this idea, arguing that any move towards a fixed exchange monetary system would imply a reduction in property values (and in the value of currency) by about 10%, i.e. the difference between the *drachma* and the *franc*. Though it never gained much support, it constituted a rallying point for those who resisted reform. The new monetary system would have also negatively affected private lenders and speculators, often landowners at the same time, who were not using the legal monetary unit but were dealing in other imported currencies at market value. A more serious argument referred to the almost certain rise any reform would cause in the price of several consumer goods²⁷.

Enforcement of the new monetary system was repeatedly postponed but article 23 of the 1867 Law fixing the value of the new Greek currency was never revoked and new coinage could be minted at any time. The new unit was to be heavier than the old *drachma* and its value was fixed at 1 old dr. = 89.54% new dr. It was to be found in coins of 5 drs. in silver or gold²⁸. Public and private debts were henceforth calculated in new drachmae something which was bound to provoke problems since debts were settled at a higher value.

Enforcement of the full LMU agreement was hampered by several anomalies in the prevailing monetary arrangements and other problems more generally related to the state of the economy and budget deficits that caused a constant flight of metal currencies and

²⁷ Zografos (1876), pp. 73-75.

²⁸ Report of 24 Aug. 1877 submitted to the NBG by a committee of experts, HANBG, XVIII(99)2. Law of 10 April 1867 fixed the parities of the new currency and Law of 5 Nov. 1868 stipulated its acceptance for payments to the Treasury.

hence a restriction in the money supply. Government expenditure had been rising and caused a severe budget deficit, fuelled by the need to service the national debt, which had risen dramatically since 1846. Political aims were at the root of this process such as the need to set up a completely new institutional framework for the new authority, domestic political unrest and the continuing national campaigns until the 1880s. As the import of foreign capital was impossible pending the settlement of older debts, successive governments had had to resort to increased borrowing from the banks and to the imposition of the forced circulation regime. On the other hand, the failure to enforce the LMU system meant that bimetallism existed without any limit as to the amount of silver coinage minted, thus increasing the money supply. Foreign silver coins, moreover, were still allowed to circulate on the basis of the 1833 rates that did not take into account the amount of wear and tear of them thus causing the flight abroad of Greek currency and the devaluation of Greek bank notes, while French and English currencies were overvalued, making transactions more expensive.

In 1875 as a result of the constant fall in the price of silver the government decided first to devalue foreign silver coins by about 3% and later to suspend their circulation altogether with the exception of the *franc*²⁹. Eventually, due to foreign pressure, it was decided to apply the LMU agreement and Greece found itself in a difficult position as it was felt that the quantity of silver coinage she was allowed to mint³⁰ was insufficient to cover her monetary needs. The NBG banknote was still not firmly accepted in market

²⁹ Royal Decree 29 Mar. 1876.

³⁰ According to the original 1867 agreement, Greece had the right to mint 3,600,000 5 franc silver coins. In 1875 another 8,000,000 were allowed in excess of the original amount which was deemed insufficient. Moreover, these coins were not allowed to circulate in other LMU countries thus vitiating in a way the principles of the convention. Zografos argued in 1876 that instead of 8,000,000 silver francs, Greece should bear the loss and purchase gold because silver coins in addition to being further devalued, due to the continuing fall in the value of silver would eventually also wear out. However, the suggestion was rejected and until 1877, 15,500,000 new *drachmae* in silver 5-pièce coins and only 1,000,000 drs. in gold coins were actually minted.

transactions. Meanwhile, as demand had switched to gold, while the NBG did not increase note circulation, liquidity problems appeared. On the other hand, Greece was accused by France of delaying enforcement of the agreement allegedly out of self interest because of the impact of the rise in the price of gold. Eventually, all foreign - non LMU - currencies that formed part of the banks' reserves, amounting to approximately 10-12,000,000 *francs*, were collected and sent to the Paris Mint to be reprocessed into new *drachmae* under the LMU agreement. Nevertheless, the import of foreign coins did not stop altogether. These developments, in addition to adding to the confusion of the system, on another plane, brought a fall in the living standards of the less privileged social groups.

The decision to mint new silver currency was taken despite the debate concerning the type of monetary system that should be adopted and despite recent developments in Europe where most countries were now opting for the gold standard. It was suggested that if the gold standard finally prevailed, the amount of 17,000,000 *francs* or *drachmae* in silver coinage would be used by Greece for small domestic transactions. Adoption of the gold standard was proposed by several experts. A prominent economist of the period, Ioannis Zografos, argued that it would have been more advantageous if Greece had chosen to accumulate gold instead of silver. A 'most perfect system' (i.e. one based on a single standard) should be introduced so that 'through convertibility or through the accumulation of adequate reserves in gold, bank notes would preserve their nominal value'³¹. As events overtook him, however, he argued that the government should at least opt for a full implementation of the LMU where silver would function as supplementary to the basic gold standard. In other words, silver was to be adopted for coins used in daily small transactions and gold for foreign trade transactions or for transactions where convertible NBG notes were used. Zografos

³¹ Zografos (1876) *passim*.

insisted, too, that Greece should at last acquire a proper monetary system, because it was a small nation that could not create its own currency and therefore had to choose from what was widely accepted elsewhere. His plan also supported the idea of a single private bank, in contrast to alternative views advocating either a multiple-bank system as in Scotland and in the USA, or a government-issuing institution as in France. A single private bank, according to Zografos had the advantage of allowing easier government control and supervision³². Preference for the gold standard also came from important trade centres such as Athens, Syros, Corfu.

The gold standard was also defended, with certain qualifications, by another prominent professor, Ioannis Soutsos, who nevertheless considered that there were no adequate gold reserves in the country to make its application possible.

Be that as it may, monetary reform was finally enforced only in 1882³³, but convertibility into gold and silver³⁴ which was re-instated in 1884 was again suspended in 1885. During this period (1876-1882) forced circulation was the rule as the *drachma* began to devalue and new military expenditure became imperative due to war in the Balkans. Until 1879 financing from abroad was not forthcoming pending a compromise with regard to the settlement of earlier debts. Greek minorities still living in the Ottoman Empire were under threat and Greece advanced once more her irredentist claims. In 1877 the government entered once again into negotiations with the NBG and the Ionian Bank for new funds under a 'forced circulation' regime. A loan of 20,000,000 drs. was negotiated with the two banks of which 10,000,000 in gold

³² *Ibid.* pp. 89-91. Zografos was a board director of the NBG and was echoing the dominant view of this institution. The proposals were very close to the operation pattern of the Bank of England.

³³ Royal Decree 26 Nov. 1882(b). Henceforth, the NBG should operate on the basis of the new monetary system.

³⁴ The LMU system was a bimetal system. However, after 1874 the minting of silver currencies in member-countries was initially restricted and eventually suspended in 1878.

(distributed between the NBG - 14,000,000 seven million of which in metal currency, and the IB - 6,000,000 three million of which in metal currency) and note issue was fixed at drs. 59,000,000. Requirements, however, exceeded estimations and the NBG loan was increased to 21,000,000 drs. seven million of which was in specie. Accordingly, maximum circulation was raised to Drs. 66,000,000. At the same time the bank was obliged to maintain coin reserves of not less than 12,500,000 drs. In 1878, the loan amount was further increased by an additional 10,000,000 drs. bringing the note issue figure to approximately 75,000,000³⁵. One way in which some sort of balance could be maintained was the restriction of credit in the private sector and the real market which the bank once more opted for. Meanwhile the national debt was reaching dramatic proportions and it became clear that capital scarcity could only be eased by an external loan. This realization came at a time when Greece was beginning to appear to foreign financiers as a new profitable market for investment opportunities.

The year 1879 can be seen as a turning point in Greek monetary history as Greece was readmitted to foreign capital markets³⁶. There was already talk of lifting the forced circulation regime with the help of an external loan to the amount of 60,000,000 *francs* at 6% interest. This was negotiated between the Greek government and the *Comptoir d'Escompte de Paris* and two Greek bankers, Andreas Syngros and George Koronios³⁷. The proceeds of the loan, however, hardly reached 44,000,000 bringing the real interest rate to 8%. Although the loan allowed

³⁵ NBG kept increasing its capital, too, in order to maintain the ratios stipulated in its statutes.

³⁶ Following the settlement reached with regard to the 1824-25 loans and the bankruptcy of 1843. This debt had blocked Greece's access to foreign capital markets but the study of British source material revealed that the debt was only an excuse, a weapon used against Greece to bring her in line with the political (strategic) plans of the 'big powers' in Europe. It has been convincingly argued that the exclusion of Greece by European powers between 1827 and 1878 from the foreign capital markets had a disastrous effect on national economic development. Cf. Dertilis (1983). For details on the national debt Petrakis (1985) p. 54-69.

³⁷ Law ΨΟΒ' 3 Jan. 1879.

the government to pay back to the National Bank its debt in metal currency, lifting forced circulation proved rather difficult as the ongoing military action demanded ever greater resources. Hostilities with Turkey in the North and domestic political strife led to the collapse of the government in 1880. The new authorities which were sworn in turned once more to the NBG requesting a new bond loan once again in the hope of restoring monetary stability. The bank complied and thus secured the import of gold that could ostensibly allow the government to lift the forced circulation, despite rather onerous terms³⁸. The worsening state of public finances made any plans for a return to monetary stability utopian. Instead, more loans were contracted with the NBG in exchange this time for extending its issuing privilege to the whole of the country - which now included all territories to be annexed (i.e. Thessaly and Epirus annexed in 1881) and several other privileges including tax exemptions. The bank's general assembly in November 1880 approved such action with the justification that supporting the government's policy at that time was a question of 'Supreme National Interest'³⁹. At the same time, a new external bond loan of 120,000,000 *francs*⁴⁰ was also negotiated by the Greek government at a lower interest of 5%, payable in 48 installments, which also included commissions for the issuing organizations, through the mediation of a recently-created bank. In addition, the issuing right was conceded to this bank - the Bank of Epirus-Thessaly - for the 'new Lands'. Because of the hostilities in the North and the eventual annexation of the

³⁸ Law ΩΠ' 18 Apr. 1880. Real capital was 60,000,000 francs at an interest rate of 6% and a duration of 44 years. Nominal capital issued amounted to 72,716,400 divided into 181,791 bonds of 400 drs. each. Two thirds of the bonds were acquired by the Banque Franco-Egyptienne at 330 drs. each. The loan was publicly launched on 23.5.1880 in Greece by the NBG, in Constantinople by the Greek banking houses of Zafiropoulos & Zarifis, in Alexandria by the Anglo-Egyptian Bank and the Synadinos, Rallis & Co., and in Zurich by the Société de Crédit Suisse. Bond value was fixed at 362.50 drs. (the profit going mainly to the Banque Franco-Egyptienne). The loan was fully subscribed. Valaoritis (1902), p. 78.

³⁹ *Ibid.* p.79.

⁴⁰ Law ΩΠΗ' 30 Dec. 1880.

two provinces, the return to monetary normality was postponed yet again. The repeated suspension of convertibility caused a rise in the price of gold and in foreign currencies to the detriment not only of foreign economic transactions (mainly imports) but also at the expense of national development and private incomes. In the new provinces (mainly in Thessaly) where convertibility was allowed, extended speculation ensued, especially with the old copper coins but also with foreign coinage, until new regulation was introduced in 1884.

The overall examination of the period until 1882 points to certain conclusions. Monetary crisis and the means for its solution were related to the introduction of a new monetary system and to the shortage of money necessary for market transactions. Forced circulation was imposed to prevent the flight of metallic reserves mainly of the National Bank of Greece. The bank's conservative policy, was intended to limit note circulation and prevent devaluation of its banknotes by maintaining a balance between note circulation and metallic reserves. Since 1864, however, note circulation was affected by increasing government expenditure; the monetary regime was used in the political strife of the period, while suspension of convertibility became an almost permanent feature of the system. Although the bank note finally dominated in most transactions, for the whole period foreign coins and Greek ones (old *drachma* and new *drachma*) circulated too.

The Gold Standard and the lifting of convertibility

If 1879 was the year during which Greece was readmitted into Europe, the year 1882 must be seen as a turning point for Greece's opening up to massive foreign investment. This era coincided with the advent of protectionism which was reflected in the policy of the new government headed by Charilaos Trikoupis, a Liberal statesman. His government took the first serious and consistent measures towards economic development, among

which were repeated attempts to lift forced circulation. The state initiated a policy to attract foreign capital for development purposes epitomised by railway construction, road building, stimulation of industry etc.. The government also set out to increase public revenue, mainly by raising import duties and introducing a new tariff system. The taxation system was reorganized and, according to one estimate, per capita taxation which was 19 *francs* in 1874 by the end of Trikoupis's term of office in 1893 had risen to 37.5 *francs*. Compared to England at approximately the same period the average Greek was contributing to the state twice as much as the average Englishman⁴¹. Within this framework, monetary reform signified re-integration of Greece into Europe⁴² and a motive for foreign investment. On the other hand, stabilising the *drachma* and introducing the gold standard would result in more government revenues from higher duties on imports and from higher taxes⁴³. Consensus concerning the need to introduce the new system by applying the LMU convention, which had meanwhile shifted towards gold, was almost general among government officials and the largest part of the entrepreneurial community. The main benefit for the state was seen to be the reduction in the rate of foreign exchange which would limit the servicing of Greek loans and would alleviate the state budget. The benefits from a free convertibility regime were not so clear for the National Bank since forced circulation meant that notes far exceeding the regular ratio of specie/fiduciary were allowed to circulate and this affected the

⁴¹ Andreades (1939), p. 444.

⁴² Commercial agreements were signed with over 25 countries. Foreign capital poured in and with it goods were imported and technology was diffused.

⁴³ In 1882, import tariffs were revised in accordance with the new monetary arrangements and new taxes were raised domestically resulting in a 12% increase. Andreades (1939), p. 384. In 1886 a new law stipulated that import duties would be payable in gold and most authors and the press hailed the 'protectionist' character of these measures; however, the main purpose was not the promotion of economic activity, let alone industry, but rather the increase in state revenues. On the nature of the tariff Andreou (1933), p. 95.

expansion of its operations. Yet, bank circles considered forced circulation rather a temporary situation⁴⁴ perhaps because benefits from the foreign loan business were considerable too. The fall in the rate of exchange was deemed beneficial for those businessmen dealing with imports of goods and raw materials. As the Greek economy was outward looking and importing much more than it exported, monetary stabilization and the fall in the value of foreign exchange would also lead to a general reduction in prices.

The gold standard was seen as a tool for economic development; but nobody seemed capable of understanding its complexity nor the possibility that the relatively smooth operation in other countries might have been a consequence of development rather than a cause. It should be noted, however, that during the two decades until 1897 Greece saw her territory grow by 35% after the integration of the Ionian Islands (1864) and Thessaly and Epirus (1881); her population more than doubled - from 1,096,810 in 1862 to 2,500,000 in 1896; her commerce grew from 83.4 million in 1862 to over 198 million in 1897, with exports increasing six-fold in thirty years; her public revenues increasing also six-fold since the 1860s. It was natural that governments in the 1880s should look ahead with enthusiasm to the prospects of internal development and should take their examples from Europe, underestimating, perhaps, the serious structural weaknesses and the high vulnerability of the country to external shocks and the international environment.

⁴⁴ Nevertheless, I. Valaoritis, former Governor of the NBG, in his *History of the National Bank of Greece* (1902), refers to the Bank's caution as to an early return to convertibility. 'The NBG wishing to prevent a rise in the value of foreign exchange and regardless of its right to circulate notes over and above those owed by the state to a value three times its metallic reserves plus the public debt, maintained the amount of notes in circulation well below the maximum allowed by Law', p.90-91... 'Circumstances on 31 Dec. 1884 under which the forced circulation was lifted were far less propitious than on previous occasions', p. 91... 'The bank might be strong but the whole economic climate of the country was not appropriate for lifting the forced circulation...' p.92.

Greece was actually developing at a time when the rest of Europe was in recession (1873-1896). This contradiction seriously affected foreign investment which had speculative objectives⁴⁵. Characteristically, for some time after 1880, but especially between 1887 and 1889, the country, literally on the verge of bankruptcy, was borrowing on better terms than before⁴⁶. Projects such as railway and road construction were designed often with the prime purpose to yield quick and high profits⁴⁷ rather than to improve internal communications. The National Question would engender two more bloody campaigns before it was settled. Budget deficits were getting worse and created a greater need for metal currency. According to one estimate, in 1885 servicing of the total public debt represented 49% of public revenues⁴⁸.

Monetary policy concentrated on lifting the forced circulation as soon as possible and achieving parity for the *drachma*. The

⁴⁵ This thesis has been put forward very convincingly by Dertilis (1985), pp. 95-97. He implicitly supports the thesis that 'timing' was important; nevertheless, he puts the emphasis on the wrong options followed by the Greek government.

⁴⁶ Speculation with regard to Greek loans abroad was very common. Bonds were bought at low prices; there were various commission fees charged. In the case of the 1887 loan the *Comptoir d'Escompte* was eager to place the loan because it was going to be used for the construction of two destroyers manufactured by a firm in which the bank had a high stake. Other bankers, knowing that new loans would be used for the repayment of older ones, bought bonds of the latter at prices below par. Details are given by Andreades (1939), pp. 432-33. For a general overview of this type of investment Born (1983), pp. 30-46.

⁴⁷ Andreades (1939), pp. 379, 386, 422-23; Papagiannakis (1982) *passim*; Dertilis (1985), pp. 95-97. Railways were built using two different gauges and linked coastal cities, extending over only 850 km in 1909; they did not have any forward or backward linkages that would promote related industries. No integrated network emerged that would serve either the currant or the cereal-producing areas. Loan capital was also badly used in road building. No network arose either as the roads built did not complement coast lines. Ultimately, loans inflated monetary circulation and were used rather for electoral purposes. Andreades (1939); Dertilis (1985), p. 98. Other reforms planned by the government were designed by foreign missions (Belgian for the postal services; French for public works and military modernisation). The cost in salaries and other benefits of foreign experts was exorbitant while the plans drawn up often unrealistic. Andreades (1939), p.25.

⁴⁸ Andreades (1939), p. 25.

purpose was to reduce Greece's external obligations but this was only possible by borrowing more from abroad.

As of 1882, the Trikoupis governments, fearing a further rise in the value of foreign exchange and believing that a quick suspension of forced circulation was the remedy for it, proceeded to negotiate with the banks of Constantinople and of Epirus-Thessaly a foreign loan, initially of 170,000,000 dr. in gold, for this purpose⁴⁹. The NBG on the insistence of the government participated with 9,000,000 but specified to the government that convertibility should be re-instated only when debts to the bank arising from forced circulation had been paid up. The situation only cleared in 1884 and convertibility was reinstated at the end of that year; but it lasted until September 1885 when forced circulation was again decreed and this time prevailed until 1910. Limited convertibility was restored after that date. During the few months of 1885 banknotes were freely convertible and the export of gold and silver was unrestricted. The NBG though not wholly in favour of lifting forced circulation, felt strong enough having managed to keep an adequate ratio of fiduciary to metal reserves of 68%⁵⁰. The situation, however, was difficult to maintain as the bank's reserves began quickly to dwindle and parity was not achieved. The value of the *franc* kept rising and in June 1885 reached 102^{1/4} drs. while the bank's reserves were depleted covering only about 40% of notes in circulation. The bank did not raise interest rates but money simply became scarce as paper currency was massively converted and then exported. Government borrowing had also resumed as a new phase in the Eastern Question had broken out and the financial demands were such that they could not be met without resorting once more to forced circulation. In December 1885 convertibility was suspended and the upper limit of paper currency

⁴⁹ Subscriptions for this loan only reached 100,000,000 drs (nominal capital). Bonds showed values inferior to those expected and the loan's servicing was higher than that of older loans (Table V). Real proceeds never exceeded 60,000,000 drs.

⁵⁰ NBG balance sheet showed that notes in circulation amounted on 31 Aug. 1884 to 69,648,623 and metallic was 47,968,218 drs.

fixed in September was raised by 13% while metallic reserves bore a 17% reserve ratio. The bank drastically reduced all types of credit (Table 4).

The duration of the free convertibility regime was too short to allow any assessment of the functioning of the gold standard. The end of convertibility was certainly precipitated by excessive government borrowing, which, although supposed to ease the monetary situation, was in fact used for other purposes. Free convertibility did not create the conditions for the smooth functioning of the gold standard. Other factors both short-term and structural were also responsible. Bad crops between 1882 and 1887 and a more general commercial crisis were at the root of the stagnation indicated by the figures of Table II. Exports diminished, many bankruptcies occurred, the *drachma* was devalued, gold was in demand. While between 1879 and 1882 foreign exchange values were maintained near parity mainly thanks to foreign loans, after 1885 and until 1887 foreign capital imports diminished - no foreign loans for war expenditure were possible. In contrast, government expenditure soared and the budget deficit was inflated as war preparations were once again underway in view of events in the Near East. (Table 1)

Deregulation must also be explained by the structural weaknesses in the Greek economy. It was an outward-looking economy depending largely on trade. Moreover, exports were based on agricultural products, indeed one single crop, currants. It has been estimated that in 1893 on the eve of the default on payments, the value of currant exports represented approximately 62% of total export value. Most products needed by domestic consumption were imported including cereals and industrial goods. Despite an overall growth in trade throughout the period 1851-1914, its structure had remained unaltered, imports always exceeding by far exports. The trade deficit increased dramatically between 1881-1886 and between 1899-1914⁵¹, exports covering only

⁵¹ For a statistical presentation of Greek trade trends during the XIXth c. Synarellis (1984). Trade grew much faster between 1864-75, at about 10% annually, whereas between 1875 and 1891, annual growth fell to 3%. Between 1891-1905, the trend was negative -2% annually. Exports started rising again between 1905-1914 by about 9%.

between 63% and 68% of imports between 1883 and 1887 and between 48% and 53% between 1899 and 1914 (Table 2).

From 1886 efforts were made by the Trikoupis government to return to normalcy. In addition to domestic borrowing, funding loans were also used for the first time, tax reform was imposed and economies were planned in the public sector. The following table sets out the loans contracted by the government with Greek banks in the three years until 1887.

Date	Bank	Paper Currency	Metallic
5 June 1885	National Bank	1,500,000	1,000,000
19 Sept. 1885	National Bank	12,000,000	12,000,000
20 Sept. 1885	Ionian Bank	2,000,000	2,000,000
23 Sept 1885	Bank of Epirus-Thessaly	1,000,000	800,000
11 Nov. 1885	National Bank	10,000,000	2,000,000
30 Dec. 1885	National Bank	20,000,000	
27 Jan. 1886	National Bank	18,000,000	
18 Feb. 1886	National Bank	35,000,000	
31 May 1886	NBG & others		19,000,000
8 Sept. 1887	NBG	15,000,000	
23 Nov. 1887	NBG & others		10,200,000
14 Dec. 1887		3,756,720	

Most of these loans were used to cover the budget deficit. The upper limit of circulation in 1887 was fixed at 138,000,000 drs. broken down as follows:

NBG notes for the bank's own operations	drs. 60,000,000
NBG notes as a result of loans to the state	drs. 78,000,000

During the period 1887-1889 a certain improvement became visible as harvests for those years were good. Foreign loans began to flow in again (Table 5). Most important of those was the so-called 'monopoly loan' issued in Paris to the amount of 135,000,000 drs. at a 4% interest rate with a 75 year duration. Though it aroused much enthusiasm at the time, it proved quite onerous. It demanded considerably higher guarantees than before and involved the direct

handling of public revenues from government monopolies by representatives of the creditors. A special organization, the Monopolies Co., was formed for that purpose⁵². Real loan capital, however, amounted to 90,000,000 fr. only and was used, on the one hand, for the purchase of two battleships for the royal navy, and on the other, for repayment of earlier loans and for covering only a small part of the budget deficit. Another two English loans were negotiated in 1889 for a total of 111,437,500 fr. and they were also used for settling earlier debts. They did not have any strings attached to them and were perhaps the only loans that really alleviated the budget⁵³.

The situation changed dramatically in 1890 when the first signs of distrust towards Greece appeared and the value of Greek securities began to fall in foreign markets⁵⁴. A new loan for 90,000,000 fr. raised only one third of the amount. The loan was to be used for railway construction but the government, following earlier practice, used it for other purposes, thus violating the terms of contract and inflicting one more wound on the country's injured creditworthiness.

As of 1890 the downward trend became alarming. Trade stagnated not least because of the falling prices and because of French protectionism against Greek currant exports. There was also a general fall in imports that was partly caused by the drastic rise in import duties. Meanwhile, no further foreign loans were forthcoming. In 1891 Greek bonds in foreign markets started

⁵² Its full impact was to be felt in 1898 when international financial control was imposed on Greece. The organization became the principal instrument of revenue collection.

⁵³ These loans were not tied to any obligation by Greece towards British industry for orders; their issue was not conditional on any guarantee or public revenue allocated for their repayment. They were not used for covering current state deficits. Regarding the first loan of £ 1,200,000 (sterling), at a real interest of 5.87%, 68% was subscribed. Regarding the second loan for £ 5,000,000 (sterling), 72.75% was subscribed. They were used for the repayment of several earlier loans including part of the 1879 loan of 60,000,000 fr. and a large part of the 135,000,000 drs. 'monopoly' loan. The English loans were also used for the conversion of earlier short-term obligations to fixed debt.

⁵⁴ Greek loans were issued and handled almost exclusively by Hambro's Bank. It is possible, however, that the upheaval caused by the difficulties of Barings' merchant bank - deeply involved in Argentinian securities - in 1890 and the ensuing crisis might have affected transactions in Greek securities too.

collapsing, indicating that bondholders were probably trying to get rid of them before it was too late. More difficulties arose in 1892 as the budget deficit increased and the Greek crisis and impending default on payments was reported widely in the European press, contributing to the negative climate.

Until then debt obligations were met mostly from the gold proceeds of foreign loans. When this source dried up, domestic reserves began to be depleted. Foreign-exchange values naturally rose and note-issue soon reached the maximum levels permitted. More loans in gold were negotiated with Greek banks totalling 23,800,000 fr. Then, on 20 December 1893, the Greek government, after attempting in vain to negotiate another foreign loan, declared partial default on foreign payments limiting the servicing of loans to 30%. As the majority of bondholders were Greeks - residing in the country or abroad - the impact on the country was severe. The impact on the private sector was no less as foreign credit to Greek firms was suspended and fluctuations in foreign exchange caused much unrest. No bank came out unscathed, including the National Bank, as is shown by the reduction in operations set out in the balance sheets (Table 4). Some of the small recently-created banks collapsed. Soon afterwards negotiations for a settlement began which, after much procrastination⁵⁵, led to the signing of an agreement in January 1898 and the imposition of the International Financial Control⁵⁶. A month later an Act was passed by the Greek Parliament according

⁵⁵ In February 1897 Greece and representatives of foreign bondholders reached agreement but the rules were never applied. Bonds had been bought in France, England, Egypt, Constantinople but also in Germany. In 1898 portions of bonds were owned to the amount of 54% in England, 22% in Germany, 21% in France and 2.5% in Greece. Bondholders were not necessarily all nationals of these countries, but Germany was most adamant that her bondholders be fully satisfied. The issue had serious political ramifications because the question of the Greek debt was used by Germany as a lever to further her interests in the Near East, especially in Turkey.

⁵⁶ While negotiations for a settlement were in progress, war broke out between Greece and Turkey with disastrous effects for the former. When diplomatic talks resumed the question of reparations to Turkey by means of a big foreign loan and the imposition of international diplomatic control on Greece were added to the agenda.

to which the basic interest rate for repayment of the debt was fixed at between 32% - 40% of the initial interest payable in gold⁵⁷. Public revenues from monopolies⁵⁸, from the Piraeus customs, from the tobacco tax etc., were used to service the debt⁵⁹. Collection and handling of public revenues was entrusted to the Monopolies Co. which was henceforth responsible to creditors. The law also fixed the rate of amortization at 2% of the initial amount which stood at 497,101 gold *francs* annually. This amount actually increased as a result of surpluses in public revenues and the improvement in the exchange rate⁶⁰. Apart from foreign loans, domestic debts were also settled. A new loan guaranteed by the controlling powers was negotiated to cover reparations to Turkey (as a result of Greece's defeat in the 1897 war) and budget deficits until 1903. Nominal capital was 170,000,000 dr. of which 150,000,000 were issued immediately⁶¹. As regards the monetary situation, Greece had undertaken the obligation not to issue any new loan under forced circulation and to limit the actual

⁵⁷ Basic interest for the loans was estimated at 8,750,000 gold fr. At an exchange rate of 1.65 they amounted to 14,500,000 paper drs. This was to be a fixed annuity. If the exchange rate improved, the amount of gold *francs* increased, in which case 60% of the surplus would go to creditors (30% for the amortization of capital). If the exchange rate deteriorated, then the difference would be covered by more government revenues (e.g. other ports' customs duties). This arrangement meant that eventually the basic interest rate was raised to about 50%.

⁵⁸ Monopolies existed for salt, playing cards, matches, cigarette paper, fuel oil, emery.

⁵⁹ The Act also stipulated that any surpluses in public revenues (from monopolies and customs duties, which were very elastic) would be divided between the creditors and the state in the proportion 60%-40%. To safeguard bondholders' interests, the law also stipulated that legislation with regard to monopolies could not be amended without permission from the Financial Committee and that bonds would be tax-free. Of the surpluses going to creditors, 30% would be channelled for debt amortization. Any difference as a result of the improvement in the exchange rate was also to be divided between the creditors and the government.

⁶⁰ Actual surpluses rose by 140% surpassing by far the 1898 estimate of 39,600,000 drs. or 23,810,000 gold *francs*. Total surplus until 1913 was 45,693,166. Between 1908 and 1913 the *drachma* had returned to gold parity.

⁶¹ Law ΒΦΜΓ 21.3.1898. The remainder of 20,000,000 drs. would be issued later if the need arose, to cover the budget deficits which were forecast. The loan carried a 2.5% interest rate and was issued above par. It yielded 152,265,199 fr. and covered satisfactorily all the purposes for which it had been contracted.

⁶² Beginning in 1900.

circulation by withdrawing 2,000,000 drs. annually⁶², in order to improve the exchange rate with a view to fully enforcing the gold standard. That money was also used for settling the question of silver coinage with the LMU⁶³. Until 1910, circulation was effectively reduced from 94,000,000 drs. to 68,000,000 drs. Because of the deflationary policy, the NBG, who had by now the exclusive monopoly on issue for the whole country, began in 1902 to accept long-term deposits in gold and foreign exchange. Disposable funds could thus be channelled more easily to the economy. However, gold reserves were still low and the exchange rather high. In 1910, a system was devised for the regulation of the latter. Convertibility was partially re-introduced by virtue of Law ΓΧΜΒ which authorised the Bank to issue notes over and above its legal right for the purchase of gold and foreign exchange at rates not exceeding par. This system prevailed until 1920. After 1912, however, the situation became more complicated because at that time the monetary system was extended to areas which had recently been integrated into the Greek state (Crete, Macedonia, the Islands of North Aegean). In all these cases, as had happened earlier with Thessaly, the *drachma* and the banknote had their difficulties⁶⁴. Turkish coins were declared legal tender provisionally in some of these areas but the National Bank was eager to see the gold standard enforced. In 1919 finally, the monetary system was extended to Asia Minor and restrictions on monetary circulation were lifted. But the

⁶² In 1907 an agreement was signed in Paris and Law ΓΧΜΑ was passed in Greece. It allowed Greece for a period of seven years to use the total amount of 14,000,000 drs. withdrawn from circulation (at 2,000,000 drs. annually) to pay for the repatriation of Greek silver coinage exported before 1885. As the amount was lower (9,000,000), Greece was allowed to mint an additional 5,000,000 drs. small silver coins (1 and 2 drs.) to be used for daily transactions by replacing equivalent paper money. A similar policy was followed in Italy in 1893. Already in 1885 LMU countries had decided to suspend minting silver 5-franc coins and to allow circulation only on a national basis. Later, it was agreed that the same coins should be used for minting smaller money. Large quantities still available in the case of some countries, e.g. France, began to be exported to the colonies. Letter by I. Valaoritis to the Greek Minister of Foreign Affairs, 14 Nov. 1908, HANBG XVIII(104). Report to the Greek Parliament on the question of ratification of the 1907 LMU convention. Article by I. Valaoritis 'The Silver Coinage Issue', *Athens* 8. June 1908.

system became once again quickly deregulated. Political events had their part in the anomaly⁶⁵ and opened a new chapter in Greek political and economic history which remains outside the scope of this article.

Conclusion

Modern monetary arrangements in Greece were part of a more general process of national political and economic development. Most of the nineteenth century was marked by the efforts of the country to build institutions and to bring about integration with Europe. In this process the bimetallic system of the Latin Monetary Union was adopted but it operated with difficulty and only partially for a long time. It suffered from periodic crises caused by domestic and external political and economic difficulties. Scarcity of metal currency was the common symptom and the imposition of forced circulation of paper money the remedy. Greece's move towards the gold standard in the 1880s occurred within the more general switch adopted by the other LMU countries.

Enforcement of the new LMU agreement and the monetary regime was neither easy nor a panacea for the many weaknesses in the Greek economy and society. Free convertibility lasted for only a few months. Adoption of the new system coincided with

⁶⁵In Crete, according to correspondence between the Bank of Crete and the National Bank in Athens dated January 1913, the public had been so cautious towards banknotes for the previous twelve years that circulation hardly reached 3,000,000 drs. Cretans generally seemed to prefer to transact directly in gold. IANBG XVIII(38) Letter of Bank of Crete to NBG, 17/30 Jan. 1913.

⁶⁶In 1919, the Greek Army authorized by the Allies occupied Smyrna and its outskirts. Monetary circulation increased in response to the greater needs of the town's economy. This was done by violating the Control Act (art. 30) with the tacit approval if not the blessings of the Financial Commission. Violation continued after that as the Allies authorized the escalation of the Greek Army campaign (May 1920) against Kemal Atatürk's forces without, however, advancing to Greece the necessary funds. In the meantime, the situation in Asia Minor began to worsen. The final conflict between the Greek Army and Atatürk's forces occurred in 1922 resulting in perhaps the biggest national tragedy of modern Greek history. Throughout this period and later still monetary circulation soared.

the flow of foreign capital into the country but the use of that capital did not enhance the prospects either of self-sustained development or of monetary normalcy⁶⁶. In addition to serious political trouble, until 1893 the external debt had become a crucial factor as an ever increasing amount of metallic currency was needed to service it. Forced circulation seemed the only solution. When this failed and Greece was committed to implementing the LMU system, deregulation led to the default on foreign payments.

The post-1893 period was dominated by international financial control. Despite the loss of national pride that this implied for the country, it could be argued that the results were not wholly negative for the country's development. In this respect, the return to parity of Greek currency from 1909 to 1920 (table II)⁶⁷ had positive effects on the whole economy. It also led to a restoration of trust in Greece and contributed to the subsequent influx of loan capital which was needed for development projects and for the country's defence⁶⁸. Although the gold standard could not operate under conditions of forced circulation, the action taken under the provisions of the Control Act, improved the monetary situation and partial convertibility was introduced in 1909. The reform of the taxation system and a

⁶⁶ Although according to reliable estimates between 1884 and 1893 foreign capital amounting to 700 million gold francs was imported to Greece, only a very small part went to productive uses. Approximately 480 million were funds for public loans, 90 million were loan capital to local authorities, 100 million were allocated to public works. Most of these loans were used to repay older debts and to cover budget deficits. According to one source, for the years 1881-1893, a total of 345,200,000 fr. found their way immediately back to Europe to repay foreign creditors; only 79 million were cashed by the Greek state, 49 million were used for road and railway construction while 60 million - as loan to the NBG - were used as mortgage credit to various foreign mining and railway firms. Whatever amounts were used for the construction of big public works, e.g. reclaiming of Lake Copais, opening of the Corinth Canal, installation of underwater telegraph cables (Eastern Telegraph Co. Ltd.) etc., these benefited mainly foreign contractors who were given generous concessions by the Greek government. Stefanides (1930), pp. 180-197.

⁶⁷ To such an extent that Andreades (1939) wrote '...it was as if forced circulation did not exist', p. 526.

programme of economies in the public sector meant that national budgets for the whole period between 1898 and 1912 not only balanced but also left a surplus. Between 1898-1909 public debt was reduced from 767,920,511 drs. to 757,988,011 despite the issuing of new loans.

The National Bank of Greece also seemed to gain from international financial control. The settlement of the public debt allowed it to get out of the difficult situation reached in 1909 whereby the government owed the bank Dr. 23,053,696 in gold and 126,822,688 in notes.

The positive effects of the fall in the value of foreign exchange were most evident in trade. Exports increased for the whole period (Table 2) with the exception of a bad spell in the early 1900s. With the growth of trade, public revenues in the form of duties were also increased. The impact of a lower exchange rate on the balance of payments is more difficult to assess since statistics for that period are not very accurate especially with regard to invisible earnings. Nevertheless, the general estimation was that more gold was imported in Greece than exported. The National Bank of Greece through which most of these transactions were effected also shared this view⁶⁹. Invisible earnings included emigrants' remittances, profits from shipping⁷⁰, other revenues⁷¹ and what was termed 'repatriation' of the public debt⁷². Emigrants' remittances

⁶⁸ Various categories of loans, domestic and external: loans for railway construction, for improving defence services, for fighting the Balkan wars and for modernizing the administration of Macedonia and Epirus. French, English and Greek banks were involved. For an analytical description of the purposes and the terms, Andreades (1939), pp. 549-560.

⁶⁹ Characteristically, Andreades in his extensive study on the Greek public debt and Valaoritis who had a perfect knowledge of NBG operations shared this view.

⁷⁰ This was a period of reorganisation of Greek shipping. Earnings from this source were estimated at between 15-20,000,000 fr.

⁷¹ Revenues from foreign properties of Greeks and capital invested mainly by French banks in large industrial and railway firms.

⁷² This occurred as a result of the fact that a large proportion of bondholders were Greeks living in England, France, Egypt, Constantinople or Greeks residing in Greece but holding accounts with foreign banks, especially in England. By 1917 the value of their bonds had tripled. Presumably, part of these proceeds found their way back to Greece. Also, less gold was necessary for paying the debt.

were most important and emigration figures available show that they must have risen considerably (Table III)⁷³.

If things continued on that course a return to normalcy would have been possible and the gold standard would probably have been adopted. Political events leading to a complete deregulation of public finances, however, once more intervened in the 1920s, this time most tragically and interrupted the process. In the wake of the First World War, Greece acquired the right to land in Asia Minor, but it soon became clear that a full military campaign was underway to safeguard the viability of existing arrangements. The conflict with the Kemalist nationalist forces escalated and culminated in the defeat in 1922 of the Greek armed forces by Turkish troops. This brought to a tragic end a 2,000-year Greek presence in the region and led to the influx of 1.5 million refugees into Greece.

⁷³ No accurate figures exist for emigrant remittances and no full picture is available so far for the economic aspects of emigration. It is generally stated in the sources examined that the first impetus in emigration trends was observed in 1875 but after 1898 it became a very important phenomenon yielding in the post-1910 period approximately 40 million *francs*. Usually, accounts of the NBG are taken as an indication since this was the main channel of transfer. Remittances from the commercial towns of the West, the Danube areas, South Russia, India and most of all Egypt before 1900 were supplemented after that date by those coming from the USA and elsewhere. Andreades (1939), p. 530; Farmakides (1921). The origin of term deposits of the NBG for that period in gold and foreign currencies indicate that they represented remittances. They came mainly from provincial towns, the places of origin of the emigrants, (IANBG, Annual Reports for various years).

APPENDIX

TABLE 1 - Budget Deficit (000 drs.)

Year	Amount	
1861	2,609	
1862	7,274	
1863	4,980	
1864	1,163	
1865	2,930	
1866	2659	
1882	5,118	
1883	9,258	
1884	30,102	
1885	61,688	
1886	66,617	
1887	49,203	
1888	49,918	
1889	35,625	
1890	48,272	
1891	16,400	
1892	1,200	
1893	4,600	surplus*
1894	17,500	surplus
1895	3,000	surplus
1896	6,000	surplus
1897	38,500	
1898	18,900	surplus
1899	10,800	surplus
1900	9,900	surplus
1901	53,500	surplus
1902	13,500	surplus
1903	500	
1904	17,100	surplus
1905	12,400	surplus

* The year 1893 was the year of default and credibility was very low. A statement in the European press is indicative '... Europe no longer believes in budgets closing with a surplus'. Andreades (1939), p. 435

Source: Andreades (1939), p. 355, 382, 413. For the period 1890-1905, State budgets, Official Publications.

TABLE 2 - Monetary and Foreign Trade Indicators

Year	Exchange Rate	Export Value	Import Value	Ratio A/B	Monet. Circul. Per capita
		A	B		
1851		12,3	23,1	53,0	6
1853		8,0	18,0	44,4	2
1856		23,1	26,7	86,3	4
1857		21,7	32,6	66,5	6
1860		24,0	48,0	50,0	7
1861		25,0	42,7	59,0	7
1864		22,4	48,9	45,8	14
1866		37,0	68,6	53,9	15
1867		43,4	66,9	64,9	16
1868		36,1	66,0	54,7	18
1870		33,8	76,1	44,4	21
1871		56,5	86,8	65,0	21
1873		57,4	82,0	70,0	26
1874		57,9	87,9	65,8	28
1875		67,4	101,9	66,1	26
1878	1,11	57,1	90,5	63,1	35
1879	1,04	55,6	101,6	54,7	34
1881	1,04	69,9	116,3	60,0	42
1882	1,09	76,3	142,5	53,5	46
1883	1,14	82,6	121,3	68,1	50
1884	1,04	73,6	115,9	63,4	41
1885	57,4	76,3	113,6	67,2	33
1886	1,23	79,0	116,7	67,7	53
1887	1,26	102,6	131,7	77,9	54
1888	1,27	95,6	109,1	87,6	50
1889	1,23	107,7	132,6	81,2	48
1890	1,23	95,7	20,8	96,3	51
1892	1,43	82,2	119,3	68,9	60
1893	1,60	88,0	91,5	96,2	54
1894	1,74	74,2	109,9	67,6	51
1895	1,90	73,1	107,9	27,8	51
1897	1,67	81,7	116,3	70,2	58
1898	1,47	88,2	138,2	63,8	56
1899	1,56	93,8	131,2	71,5	54
1900	1,64	102,7	131,4	78,9	58
1902	1,62	79,6	137,2	58,0	57
1903	1,56	85,9	137,5	62,0	55
1904	1,37	90,6	137,0	66,0	52
1905	1,23	83,7	141,7	59,0	49
1906	1,10	123,5	144,6	85,0	50
1907	1,08	117,6	149,1	79,0	52
1908	1,08	110,7	154,6	72,0	49
1909	1,02	101,7	137,5	74,0	50
1910	0,99	144,6	160,5	90,0	49
1911	0,99	140,9	173,5	81,2	52
1912	0,99	145,0	154,1	94,0	76
1913	0,99	149,0	177,9	66,9	51
1915	0,94				
1916	0,88				
1917	0,90				

Exchange rate is in French francs
Exports and Imports in million drachmae.
Monetary Circulation per capita in drachmae.

Source: Andreou (1933), p. 87, 98; Andreades (1939), p. 512.

TABLE 3 - Emigration to the USA

Year	No.	Year	No.
1880	23	1906	23,127
1885	172	1907	36,404
1893	1,072	1908	28,808
1900	3,773	1910	39,135
1901	5,910	1911	37,021
1902	8,115	1912	31,566
1903	14,090	1913	38,644
1904	11,343	1914	45,881
1905	10,515	1915	15,187

Source: Andreades (1939), p. 529.

**TABLE 4 - National Bank of Greece Balance sheets
(Million Drs.)**

Asset	1842	1848	1858	1866	1876	1885	1897	1901	1905	1906	1910	1912
Gold & Other cash												
& for.Bal	0.4	1.1	6.3	6.9	18.3	13.7	18					
Disposable funds												
at home & abroad							24.3	35.8	64.2	60.5	101	160.4
Short-term credit	0.7	2.3	8.6	16.7	31.9	40.3	26.3	54.4	63.3	88	76.2	74.2
Long-term credit	3.2	4.5	6	25.3	33	79.7	77.5	105.6	118.8	132.2	134.6	144.5
Net. Loans &												
pbl debt bonds				0.5	15	89	149.9	142.8	131.5	136.9	135	127.2
	4.3	7.9	20.9	49.4	98.2	222.7	271.7	338.6	377.8	417.6	446.8	506.3
Liabilities												
Cap. & Reser	2.3	5.2	6.4	21	30.6	34.8	31.5	33.5	33.5	33.5	33.5	33.5
Note Circ.	0.3	1.2	7.8	17	36	77	134.4	141.8	127	129	133.3	126.4
Note Issd*							140.7	150.4	144.3	138.3	156.7	162.8
Sight Dep. & other	1.7	0.5	1.1	2.1	8.2	12.4	17.3	49.8	46.6	42	56.6	98.6
Savingdep.		0.2	0.6	0.4	0.5	0.8	1.8	2.7	5.2	12.2	17.3	25
Time dep.& other llab.		0.8	5	8.9	22.9	97.7	86.7	102.2	148.2	191.6	182.7	186.4
Dividends	66	65.8	83.9	121.4	210.1	260	90	165	180	200	200	200

*Notes issued under Law GCMB are included

Source: Eulambio (1924) and NBG balance sheets

TABLE 5 - Foreign Loans 1879-1890

Date	Nominal Capital	Nominal Interest	Net Product	Real Interest
1879	60,000,000	6 %	44,000,000	8.19%
1880	120,000,000	5	89,500,000	7.35
1884	100,000,000	5	69,786,000	6.16
1887	135,000,000	4	90,000,000	6
1887	30,000,000*	4	20,436,000	6
1889	125,000,000	4	91,000,000	5.50
1890	60,000,000	5	53,000,000	5.70
Total	630,000,000		458,622,000	

*consolidated

Source: Andreades (1930), p.112

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