

**Ιστορικό Αρχείο Τράπεζας της Ελλάδος**  
**ΔΕΛΤΙΟ ΧΑΡΑΚΤΗΡΙΣΜΟΥ ΑΝΤΙΓΡΑΦΩΝ ΦΑΚΕΛΟΥ**

**Κωδικός αναγνώρισης αρχείου**

GRHABOG\_A4

**Τίτλος αρχείου**

*Αρχείο Κυριάκου Βαρβαρέσου*

**Κωδικός αναγνώρισης σειράς:**

GRHABOG\_A4S1

**Τίτλος σειράς:**

*Ζητήματα οικονομικής και νομισματικής πολιτικής*

**Κωδικός αναγνώρισης υποσειράς:**

GRHABOG\_A4S1Y5

**Τίτλος υποσειράς:**

*Εκθέσεις-υπομνήματα*

**Κωδικός αναγνώρισης φακέλου**

GRHABOG\_A4S1Y5F17

**Τίτλος φακέλου**

*Υπόμνημα Κυριάκου Βαρβαρέσου προς τον Dean Acheson : Κείμενο υπομνήματος (1946)*

ΑΡΧΕΙΟ  
Κ. ΒΑΡΒΑΡΕΣΟΥ

17/1/1

SECRET

MEMORANDUM ON THE GREEK ECONOMIC SITUATION

by

K. VARVARESSOS

WASHINGTON, D. C.  
August 2, 1946



SECRET

## MEMORANDUM ON THE GREEK ECONOMIC SITUATION

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SECRET

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Washington, August 3, 1946

Dear Mr. Acheson,

Last March I promised to let you have a Memorandum containing an exposition of the Greek economic situation together with my personal views and suggestions.

With elections due to be held in Greece on March 31st, I thought it advisable to postpone the preparation of this Memorandum until I had had time to appraise the implications, if any, of these elections and their probable influence on economic developments in Greece.

I now feel that the position has become sufficiently clear for me to attempt to draw up the picture that emerges from a careful and objective examination of the prevailing situation.

In order, however, to avoid any possible misunderstanding, I should like to stress that this is an entirely unofficial document which I am submitting in my personal capacity and on my own initiative. I must draw your attention to the fact that, although for over thirty years I have been closely associated with the making of economic policy in Greece and the handling of Greek economic problems, today I have no link with Greek official circles at home or abroad or with official plans and policies.

In normal circumstances I would have been extremely reluctant to submit my personal views to a foreign government, even less to make suggestions and recommendations. After much hesitation I felt, however, that the circumstances in which Greece at present finds herself are so exceptional and her plight so desperate that I would not be doing my duty if I abstained from making the only contribution that it is at present in my power to make, namely to bring to the attention of the United States Government the extreme gravity of the Greek situation and the need for positive action in order to prevent certain collapse.

I should therefore like to ask you to consider this Memorandum as a strictly confidential communication made to you personally and not intended for departmental use. I shall hand

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one more copy to Mr. Clayton, as I promised, and shall make the same request to him. I am certain that you will appreciate the position in which I find myself and agree with me that this is the only course that will enable me to express freely and frankly my opinion on delicate and complex issues.

Yours sincerely,

K. Varvaressos

The Honorable Dean Acheson  
Undersecretary of State  
Department of State  
Washington, D. C.





THE GREEK ECONOMIC SITUATION

## A. THE MAIN FEATURES OF THE GREEK ECONOMY

I should like in the first place to draw attention to the precarious economic existence to which circumstances very largely beyond their control had condemned a hard-working, intelligent and frugal people even when their resources were intact and their country peaceful and well-administered.

The pover  
of Greece

Greece has always been a poor country, handicapped in her economic development by the infertility of her soil, the meagerness of her resources, her great dependence on imports of essential commodities and her excessive reliance on exports of a few special crops as well as on other sources of income such as emigrants' remittances and earnings of shipping whose flow was erratic and steadily declining. If to these unfavorable factors we add a vulnerable geographical and strategic position which inevitably transforms the country into a battlefield every time wars break out in Europe, an artificially large (due to the influx of refugees in 1922) and steadily increasing population and the scourge of malaria which afflicts the country and undermines the health of its population, we have the main reasons for the low national income and the great economic instability of the country.

A few facts and figures can better illustrate the country's difficulties:

### 1) Limited resources of the country

In Greece over half the total area is mountainous and arid, 25 per cent consists of forests and poor grazing land and only 20 per cent is suitable for cultivation. A comparison with the other Balkan countries reveals the unfavorable position of Greece:

Limited  
resources

	<u>Percentage of land under cultivation</u>	<u>No. of persons per sq. km. of cultivated land</u>
Bulgaria	38	140
Rumania	46	128
Yugoslavia	29	181
Greece	20	336

Natural conditions in Greece are unfavorable to the growth of food crops and to livestock farming. The Greek soil and climate are suited for the cultivation of a few special products such as tobacco, currants and grapes, fruits, olive oil. With the exception of olive oil, however, these products cannot directly satisfy the essential needs of the population and are therefore produced with advantage only to the extent that they can be exported.

Greece lacks fuel and many essential raw materials which she must import. The Greek industry is entirely dependent on such imports for its requirements in fuel and many important materials.

Land communications are poor and expensive owing to the mountainous nature of the country. In many districts pack animals are the only possible means of transportation.

### 2) Overpopulation

The inability of the Greek soil to support an increasing population has been the curse of Greece from very ancient times. For very long emigration and colonization provided the solution.

Overpopula-  
tion and  
cessation of  
emigration



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In recent times emigration to the New World was the main outlet. Between 1900 and 1921 over 400,000 Greeks emigrated to the New World, mostly the U.S.A., representing an average of 18,300 emigrants each year (5-10 per 1000 inhabitants)\*.

Since 1921, as a result of the restrictions imposed by the countries of immigration, this figure was reduced to an average of 7,000 per year during the period 1922-1930 (1.2 per 1,000 inhabitants) and 3,000 per year during the period 1931-38 (0.4 per 1,000).

The demographic problem was further aggravated by the influx of 1,300,000 refugees from Asia Minor in 1922, as a result of which the population of the country increased overnight by some 25 per cent. These refugees arrived in a state of complete destitution and had to be housed, clothed, fed and given productive employment. By incurring a heavy foreign debt and making great efforts and sacrifices the country was able to solve this problem as a refugee problem.

Influx of  
refugees

The fact, however, remained that the population was exceptionally large in relation to the limited resources of the country and was, moreover, rapidly increasing owing to the high birth rate. The result of this overpopulation was the extremely small size of the Greek farm in the rural areas (75 per cent of holdings did not exceed 7.5 acres) and considerable unemployment in the urban areas.

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\* There was also a considerable emigration to Egypt and Russia but figures are not available.

### 3) Health of the population

Owing mainly to the numerous swamps caused by the uneven rainfall and the topography of the land, Greece is the most malarious country in Europe.

Malaria

Before 1930 there were 9.17 deaths from malaria per 10,000 inhabitants in Greece as compared with 0.70 in Italy, 1.58 in Bulgaria and 0.20 in Spain. Since 1930 as a result of a vigorous anti-malaria campaign deaths were reduced to 5.5 per 10,000.

It was estimated that the inhabitants of the malaria-stricken districts were unable to put in more than 100 working days per annum. Infant mortality was highest in these districts. The heavy incidence of tuberculosis in the country was also largely due to the low resistance offered by organisms which had been weakened by malaria.

The number of cases of malaria varied from year to year but the lowest figure quoted was 1,000,000. When, on the other hand, the disease, as often happened, assumed the form of an epidemic, the number of cases reached 2,000,000.

The regions most severely affected were Thessaly, Macedonia and Thrace, that is the regions which include the few fertile plains of the country.

### 4) Low National Income and great economic instability

The national income was estimated in 1940 at £400 million. This corresponds to \$55 per head of the population, as compared with \$690 in USA and \$480 in Britain. The majority of the population was maintained on a low and

Low nation  
income and  
consumption



inadequate diet whose main item was bread. Cereals and pulses provided 67% of the average daily caloric intake as compared with 44.5% in the British war-time diet.

Not only was the National Income low but a large proportion of it consisted of imported goods. In spite of the severe restrictions introduced after 1931, imports in 1936-38 corresponded to 20 per cent of the National Income. In Britain, one of the greatest importing countries in the world, the proportion of gross imports to the National Income did not exceed 16 per cent while the proportion of net imports was only 12.5 per cent.

Dependence  
on imports

Greece imported a considerable part of the foodstuffs, raw materials and semi-manufactured goods consumed and the total of her requirements in fuel and equipment.

A comparison with the other Balkan countries reveals the exceptional position of Greece in this respect:

Imports per head in 1936-38

Bulgaria	£10
Rumania	£6.5
Yugoslavia	£6.5
Turkey	£5.0
Greece	£17.0

Greek exports provided only 60 per cent of the foreign exchange needed to pay for these imports and assure the service of the foreign debt. Moreover the exports consisted overwhelmingly of a few special crops whose prices and demand were subject

Contribution  
of  
exports

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to wide fluctuations on world markets (over two-thirds of Greek exports consisted of tobacco and dried fruits).

The remaining 40 per cent of the foreign exchange available to the country was obtained from emigrants' remittances, earnings of shipping and income from capital invested abroad, which were similarly subject to wide fluctuations and were moreover steadily declining.

Contribution of invisible sources of foreign exchange

Thus, not only were Greek resources limited but they were also responsible for the great instability of the Greek economic structure.

It must also be remembered that until 1932 continuous foreign borrowing, usually under onerous terms, had been a characteristic feature of Greek finances. The inflow of foreign capital in Greece took the form mostly of loans to the Government, which were used for the execution of public works, for meeting exceptional needs arising from wars and in general for supplementing the state's resources. The foreign exchange thus available enabled the country to import larger quantities of commodities than its regular resources made possible but at the same time increasingly large sums had to be devoted each year to the service of the foreign debt.

Foreign borrowing

This dependence on foreign capital was an additional and important factor of instability. Every curtailment of borrowing facilities inevitably resulted in the sharp deterioration of the economic situation and in serious monetary disturbances.



These periodic difficulties of the Greek economy culminated in the acute crisis of 1931-32 when, as a result of the Great Depression, the precarious equilibrium of the country's economy was completely upset. Exports fell sharply, the other sources of foreign exchange were drastically reduced, the inflow of foreign capital ceased completely and the country lost 3/4 of its foreign exchange reserves.

Effects of  
World  
Depression

Greece was able to emerge from this crisis only by drastically readjusting her commercial and monetary policy to the new conditions created by the restrictive policies adopted everywhere after 1931.

Exchange  
control and  
import re-  
strictions

In order to maintain her exports, Greece was forced to accept the terms imposed by Germany on the whole of Central, Eastern and South-Eastern Europe and enter into bilateral trade and clearing agreements.

During the period 1936-1940, 60 per cent of total Greek exports were settled by the clearing method and only 40 per cent brought in free foreign exchange.

Bilateral  
trading

There can be no doubt that bilateral trading enabled Greek exports to recover from the low level to which they had fallen in 1932-1933. On the other hand this system meant that the satisfaction of requirements depended not on their importance or urgency but on whether a credit balance existed with a particular country and on whether that country could or would supply the commodities needed. Thus the freedom previously enjoyed of using the proceeds from the export trade for purchases on the world markets was to a large extent lost.



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The economic and social difficulties which Greece was experiencing under the stress of these developments affected also the political stability of the country, and this, together with a distressing lack of leadership during the last pre-war decade, greatly contributed to the establishment of a dictatorship under General Metaxas.

Spirit of  
the people

In spite of these difficult circumstances, however, the Greek people maintained intact their indomitable spirit and their devotion to their traditional ideals of freedom and democracy. When the test came, it was that spirit and that devotion that brought them unhesitatingly on the side of the Allies at a time when the fortunes of war were still undecided and when less romantic peoples were trying to cut their losses.

With the passing of time the record of the Greek Nation in this war has been relegated in the distance of the past and sometimes one has even the impression that to recall it produces a feeling of impatience. But to those who know in what spirit the Greek people participated in the war and what terrible sacrifices they willingly made not in order to obtain any subsequent advantages or favors but as a contribution to what they believed was a just cause, the blunting of memories cannot fail to be painful.

#### B. THE EFFECTS OF THE WAR AND OF THE ENEMY OCCUPATION

Four years of the most cruel and oppressive occupation ever imposed on any people followed six months of hard fighting in which the Greek people devoted unstintingly all their resources

Exhaustion  
of the  
Greek Economy



to the prosecution of the war at a time when Greece's allies, hard-pressed themselves, were unable to give effective material assistance. An economically exhausted country was forced to maintain large armies of occupation, become a basis for the military operations in North Africa and pay large sums not only as occupation costs but also as "advances".

Unlike other countries, Greece did not even have the advantage of rational exploitation which, while depriving the people of the product of their labor, at least leaves the country's sources of wealth and its administrative and financial mechanism unimpaired. Greek resources were too small and too depleted and the country was too distant from the German centers of production to make such a rational exploitation worth-while for the enemy, while the fierce and uncompromising spirit of the population rejected even the mildest form of economic collaboration.

Thus in Greece the enemy did not hesitate to adopt measures which brought about the ruin of the country's economic life, the disintegration of its administration, the irreparable collapse of its currency, the extermination of hundreds of thousands of its people and the complete physical exhaustion of the majority of those who survived untold hardships and privations.

The country was dismembered and split up in a great number of isolated regions between which practically all economic intercourse was prohibited, with the result that local produce could not move from surplus to deficit districts, production was disorganized, starvation broke out in the urban centers and the administrative machinery of the country disintegrated.

Dismem-  
berment



A huge inflation was created by means of which the enemy was able to lay hands on whatever was available in the country, all transport was requisitioned and at the time of the enemy withdrawal thoroughly destroyed, livestock was slaughtered on a massive scale and hundreds of villages and towns were burnt and pillaged as reprisals against the unrelenting struggle carried on by armed resistance forces within the country. If to the destruction thus created we add the effects of Allied bombing and sabotage we realize the extent of the misery and devastation prevailing in the country at the time of liberation.

Inflation, exploitation and destructions

With over 80 per cent of her railways, bridges, port facilities, roads, trucks and coastal shipping completely destroyed, over half her livestock lost, large tracts of her countryside laid waste, an exhausted population which for over four years had been maintained on less than 1,500 calories per head per day and with one-third of her people reduced to utter destitution, Greece at the time of liberation presented a distressing picture of complete economic collapse.

Collapse of the Greek economy

#### C. THE COURSE OF EVENTS SINCE THE LIBERATION

The terrible strains imposed by the occupation on the life of the country could not remain without influence on political and social developments.

Political and social tensions

Already before the war considerable discontent was taking hold of the working class as a result of the low level of incomes and the lack of opportunities for work. The existence, at the same time, of a small but powerful class possessing substantial wealth, among whom industrialists, favored by



import restrictions, had lately become prominent, served only to enhance the poverty of the masses and thus intensify social antagonisms and provide a favorable ground for the spreading of revolutionary doctrines. In the relative stability, however, of the pre-war political and economic framework and of an efficient and honest administration the highly developed individualism of the Greek people was able to keep these extremist tendencies in check.

The breakdown of the country's administrative machinery and the wild inflation created by the enemy widened so dangerously this gap between the rich and the poor that the force of tradition was no longer sufficient to keep the situation in hand.

Effects of  
inflation  
on social  
structure

It is well-known that, by dispossessing the consuming public to the benefit of a small minority of traders and manufacturers, inflation is the most effective means of creating or intensifying social inequalities.

In Greece, the spending of huge sums by the occupying authorities led to the increase in the money incomes and the monetary demand of certain sections of the population at a time of acute scarcity of all kinds of goods. Prices on the market rose sharply, the existing machinery of price control and regulation was abandoned and increases in wages and salaries inevitably followed (during the first years with a considerable time-lag but in the months preceding the liberation almost instantly). Profiteers and speculators among whom merchants and industrialists were prominent, now left completely unchecked, were allowed to subject the Greek public to a ruthless exploitation and amass huge fortunes as a reward for their anti-social activities.



The vicious spiral of inflation was thus set in motion on an unprecedented scale and the further depreciation of the currency soon became a factor universally taken into account and against which provision was being made in all transactions.

Gold, and especially the gold sovereign, became the only recognized standard of value. The dealers, profiteers and collaborators hastened to safeguard their profits by investing them in gold of which large quantities were being imported in the country by the Germans and the Allies and in so doing intensified the depreciation of the currency.

Thus Greece was transformed into a paradise for the rich and the unscrupulous, i.e., the few, and a hell for the poor, i.e., the vast majority of the population.

Conditions of such intolerable inequality were bound to create a deep gulf between exploiters and exploited and lead to strong dissatisfaction, unrest and violence.

The liberation movement and the need for social reforms

It is therefore no accident that in Greece, as in other countries, the liberation movement included among its objectives drastic economic and social reforms and displayed definite left tendencies. It seems to me that subsequent developments should not obscure the fact that at its inception this movement was a genuine movement for liberation and reform commanding strong support among the masses of the population, especially the younger generation.

Unfortunately, and this is probably one of the worse tragedies of Greece, the movement soon came under complete



communist domination. This became possible not only because the communists were better organized but also because they were able to mobilize strong armed support for themselves by taking advantage of the policy followed by Greece's Allies, of organizing armed bands inside the country in order to create difficulties for the Germans.

It is impossible to exaggerate the effects of this policy on the course of events in Greece. Here was a country whose administration had collapsed under the impact of a disruptive occupation, a country ruled by a discredited Government possessing no real authority and allegiance to which was proclaimed treason, a country whose citizens were engaged in a desperate struggle for survival, in fact a country where organized life had ceased to exist and the foundations of society had been rent apart. There is no country in the world, however well disciplined and organized, that can afford to allow a section of its population to form itself into independent armed bands. In a country like Greece, which was experiencing a complete disintegration of its institutions, it was simply asking for trouble to equip with arms and funds a fanatical minority whose proclaimed policy had always been to seize power by force. The subsequent attempt to correct this mistake by creating rival bands only completed the disaster since it sowed the seeds of civil war and carried the country farther away from the desperately needed unity among its people.

The arming  
of Commun-  
ists an  
Allied  
mistake

If to the political and social evils which accompanied the creation of an armed resistance movement dominated by the communists one adds the widespread devastation and destitution



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which were the result of fighting and reprisals one cannot escape the conclusion that a policy has been followed in Greece which was extremely shortsighted and at times little less than irresponsible.

However great the nuisance value of this resistance movement, and there can be no doubt that it did create considerable difficulties for the Germans, the sacrifices it imposed on the Greek people were out of all proportion to the contribution it made to Allied victory. Nor was military victory, at whatever cost, the sole aim for which this war was being fought. The ultimate objective, as has often been proclaimed, was the establishment of a just and solid peace which would bring security and prosperity to all countries, great or small, rich or poor and fulfil the legitimate aspirations of their peoples for a more worthwhile existence. It was therefore the duty of the Great Allies to refrain from actions that would permanently cripple an already prostrate country. Unfortunately, in the case of Greece, military expediency and immediate advantages were given priority over all other considerations and the long-term interests of the country were completely disregarded.

I am not making this criticism after the event. From the very first I felt that a wrong policy was being followed and pointed out to the Allied officials with whom I came into contact the grave dangers of such a policy, the heavy additional losses that it would inflict on an already ruined country and the difficulties that would subsequently be encountered in ridding a



17/1/20

mountainous country of the banditry into which any such armed bands, once the first enthusiasm was over, were bound to degenerate. I felt that the more cautious policy followed by the occupied countries of Western Europe was even more essential in the case of a helpless country like Greece. I was convinced that Greece, too, should have rejected the ambitious plans of early and sustained fighting against powerful occupying forces in favor of a rising in support of the Allied forces at the time of their landing.

Once, however, the mistake was made, there were only two alternatives to anarchy and bloodshed: a) The bid for power by the communist-dominated resistance movement might have been left unopposed and the totalitarian regime that would inevitably have been set up might have been subsequently recognized as the lawful Government of the country. The result might have been that a strong Government would at least have been established in the country which might have vigorously tackled the difficult problems of reconstruction and taken severe measures against profiteering and speculation.

Alternative  
at the time  
of liberation:

a) recognition  
of resistance  
movement

This was the policy followed by the Allies in the case of Yugoslavia. In this respect I should like to point out that the achievements of the Tito regime in the field of economic organization attributed to it by Anglo-American officials and correspondents reflect only the greater efficiency of dictatorships in this field. The record of the GHQ Administration in some Greek provinces, which has been repeatedly praised in reports of American UNRRA officials, shows

that if the Greek Left had been allowed to seize power it would have displayed the same drive which is admired in its Yugoslav counterpart.

To let, however, a fanatical minority impose its will on the mass of the population would have completely disregarded the pledge of free and democratic regimes given by the Allies during the war and would have been particularly resented by a people as jealous of their liberties as the Greeks. There can therefore be no regret for the fact that the power of the Left was effectively checked although the way in which this was done in Greece has also meant that Greece, unlike the other liberated countries, was depriving itself of the cooperation of the most dynamic section of its population in the arduous task of reconstruction.

b) The second and only alternative consistent with Allied declarations would have been to recognize the fact that the departing Germans were leaving the country in a state of chaos and anarchy and that it was the responsibility of the Allies to maintain order and create conditions favorable to the reestablishment of a central authority commanding the respect and support of the population, until elections could be held that would finally determine the relative strength of the political parties.

b) Reestablishment of order by Allied air and ground forces and formation of strong coalition government

Such a policy would have required 1) sufficient Allied forces to impose order and control the situation with firmness and impartiality and 2) an interim Government on which the new forces that had emerged during the occupation



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were adequately represented and which would possess sufficient authority and prestige to devote itself to the solution of the difficult problems facing the country and combat vigorously the evils bequathed by the occupation.

This was the pattern of liberation in France and the other countries of Western Europe. In these countries the presence of strong Allied armies discouraged any tendency among armed groups to seize power by force while the immediate formation of broadly representative Governments headed by respected leaders enabled these countries to reestablish law and order and, after some initial difficulties, settle down peacefully and devote their energies to the task of reconstruction.

Events followed an entirely different course in Greece. The country, although spared the devastation of a new campaign, was soon to discover that the long-awaited liberation brought with it chaos and anarchy.

Course of  
events in  
Greece:  
chaos and  
anarchy

Military requirements in the Mediterranean theater of war apparently prevented the dispatch to Greece of adequate Allied forces. On the other hand the Government that returned to Greece, although nominally a coalition of all political parties, was in fact divided, weak and incompetent and had no definite plans for the difficult problems ahead. While the failure to provide the relief so often promised and the mishandling of the monetary problem by the authorities were creating a desperate economic situation in the country, the Communist

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leaders felt that this was the time to take advantage of the acute disappointment of the population and the weakness of the Government and of the Allied forces in order to seize power by force and gain control of the country. At the same time certain mistakes committed on the Allied side and in particular the equivocal attitude of the British Government in the controversial issue of the King's return enabled the extremists to enlist the support of many well-intentioned people who were genuinely convinced that democracy was in peril in Greece and had to be defended.

In surveying the events that led to the December rising two considerations should be kept in mind:

The December  
rising:  
policy of  
communists

1) There can be no doubt that if sufficient Allied forces had been sent to Greece the extremists would not have dared to resort to an armed rising. This is not speculation, it is a view which events before the landing of Allied forces fully corroborate. It is well-known that the Germans evacuated Greece on their own because their position there had become untenable as a result of developments in other fronts. It is also well-known that several days elapsed between the departure of the Germans and the landing of Allied Forces during which the left-wing movement was in undisputed control of the country and had a unique opportunity of seizing power, establishing a government of its own and thus presenting the Allies with a fait accompli.



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The explanation why it did not take advantage of this opportunity is two-fold: In the first place its leaders had expected that strong Allied forces would land in Greece which would support the lawfully constituted Greek Government on which they themselves were represented. In the second place they expected, as everybody else in Greece, that the landing of Allied forces would be accompanied by such a vast improvement in the desperate conditions prevailing in the country that they carefully avoided doing anything that might have deprived the population of the long-awaited relief. It is a safe guess that while their intention was to take advantage of their participation in the Government in order to acquire a dominant position in the political life of the country they were not thinking at that time in terms of exclusive control. This also explains why in the first place they accepted to join the Government and subscribe to the arrangements made with the British authorities concerning the landing of British troops in Greece. The fact that they subsequently changed their plans proves that they were encouraged in their desire to seize power by the inadequacy of the Allied forces and the disappointment of the population at the failure to improve economic conditions.

It is impossible to exaggerate the consequences of this change of attitude for the whole economic and political development of the country. I am convinced that this change

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of attitude and the influences that induced it deprived Greece of a unique opportunity of smoothly integrating her extremist elements in her political life and making them a positive instead of a negative factor in her recovery. Experience in other countries shows that once violent tactics and methods are given up in favor of collaboration with other political parties, however imperfect this collaboration, the extremist tendencies loose much of their initial virulence and a more cooperative attitude is gradually acquired.

2) The second consideration which should be kept in mind is that the December rising was not a civil war in the ordinary sense of the word, which implies fighting among the population for exclusive control of the Government by the one side. In Greece the fighting took place between a small armed group, probably not exceeding 25,000 persons, and equally few, but subsequently reinforced, Allied troops, while the mass of the population was anxiously awaiting the end of the tragedy.

The December rising  
not a civil war

As already stated, nothing but the British troops stood between the organized Left and its bid for power. There cannot be the slightest doubt that without the British intervention the Left would have easily obtained control of the country.

I am stressing this point with particular emphasis because it has a very important bearing on subsequent developments.



The outcome of the fighting should never have been interpreted as a victory of the Right and a defeat of the Left, which it was not, but as the suppression of an armed rising by Allied forces sent to Greece to maintain order and protect the liberties of the people. This means that it was the responsibility of the British authorities in Greece to prevent the Right from deriving any political advantage from the unpleasant but necessary action which the British troops had been forced to take in Greece against a small group of fanatics and extremists. Not only was this a direct responsibility of the British authorities, it was also a unique opportunity for them to use their prestige and popularity in the cause of unity, moderation and generosity. In spite of contrary appearances, I am still convinced that the Greek people would have responded favorably to a sincere appeal for unity and that Greece might thus have been spared the excesses of reaction and the evils of inflamed political passions.

Responsi-  
bility of  
the British

Unfortunately, the Right was allowed to interpret the suppression of the rising as its own victory and as a mandate to proceed with the elimination of its opponents and the persecution of all the progressive elements in the country.

It would be unfair to the British authorities not to recognize that in the atmosphere prevailing after the fighting a policy of moderation would have been unpopular and difficult to apply.

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The mass of the people, among whom many formerly belonging to the Left, had been horrified by the excesses committed by the extremists during the fighting and a revulsion of feeling had taken place against the Left and in favor of the Right.

It was not, however, difficult to realize that this was a temporary reaction which would have been maintained only to the extent to which those whom it favored were prepared to discharge their responsibilities towards the country.

No one acquainted with conditions and personalities in Greece could expect the Right to prove equal to its opportunity.

In the first place it is necessary to explain this alignment of political forces into Right and Left which was a new development in Greece's political life.

Political  
forces in  
Greece:  
the Right  
and the  
Left

I have mentioned in the first Section of this Memorandum that already before the war Greece suffered from the inability of political parties and leaders to provide stable Governments and deal with the difficult problems facing the country and that it is this situation which led to the establishment of a dictatorship.

In the atmosphere of high hopes and expectations for the future which sustained the population during the dark days of occupation political thinking was in terms of new leaders, new programs and positive plans of reform. The return to power of the old politicians appeared then inconceivable.



The central factor in this new political development was the National Liberation Front, known as EAM. I have shown how this movement gradually fell under the domination of the communists and thereby lost its appeal for the mass of the population, which dislikes the methods of the communists, their intolerance and their subservience to a foreign Power. A considerable proportion of the initial followers, in spite of their misgivings, hesitated to break away because they felt that the progressive forces in Greece were not strong enough to risk a split in their midst. Thus, while disliking the communist methods and tactics, they remained uneasily within the movement, hoping that they would be able to exercise a moderating influence on their extremist associates. Large numbers, however, among whom the rural population having suffered most from the excesses of the Communists was prominent, rejected any kind of compromise and turned to other directions.

Unfortunately, either because of the tense situation prevailing in the country which was hardly conducive to moderation, or of ill-luck, the desire for a progressive but at the same time democratic political development could not find expression in a strong and well-organized movement such as the Christian Democratic or Socialist movements in Western Europe.

In this connection I should like to explain that my regret for the absence of a strong progressive movement in Greece is not due to any preconceived ideas or personal preferences, but to the realization that only through such a movement could desperately needed reforms be carried out and

The lack of  
a progressive  
democratic  
movement

only through such reforms could the evils of profiteering and exploitation fostered by inflation and occupation be eradicated from the country. However much one might have liked to rely on traditional forces, an objective examination of the situation showed that economic recovery could not be achieved through these forces alone.

It is not always understood in U.S.A. to what extent private enterprise in Europe had failed to meet its responsibilities towards the community, both before and during the war. The term "private enterprise" itself has a quite different connotation in Europe than it has in USA.

The failure  
of private  
enterprise  
in Europe

In this country private enterprise is still displaying its original energy and efficiency and is still the main factor in the vast expansion of production and wealth which has been going on for over a century and which has benefited all sections of the population alike and brought unprecedented prosperity to millions of homes.

Even in this country the complexity of modern economic problems and the growth of monopolies have forced the Government to take positive action in many fields previously considered as the exclusive province of private enterprise and subject private business to direction and control whenever the general interest was at stake. In Europe, on the other hand, private enterprise by and large (with notable exceptions) was becoming increasingly indifferent to the welfare of the community.



Even before the war, it was relying far more on restrictions and monopoly for its profits than on its capacity to serve the public efficiently. I am also convinced that private business interests have been a by no means negligible influence in the erection of barriers to international trade and the adoption of aggressive commercial policies during the inter-war period. There can be no doubt that even when the protective measures taken in the various countries were not the result of direct economic and political pressure of sectional interests, which was, however, often the case, these interests greatly profited from the restrictive measures which the various countries had to adopt in order to protect their balance of payments. These measures, which insulated the internal market from the world economy, necessarily operated to the benefit of sectional interests and at the expense of the public.

Moreover, in the poverty and discontent that were the consequence of these economies of restriction, private enterprise was finding itself increasingly antagonistic to the working classes and, lacking the vision to realize that its position would ultimately become untenable in the midst of the hostility of the masses, it sought to maintain its hold and safeguard its interests and privileges by supporting fascist regimes or tendencies and, in many countries, by obtaining the enforcement of repressive measures against labor.

During the war it did not hesitate to take advantage of inflation and the prevailing scarcities in order to reap exceptionally large profits, and in a great number of cases gravely compromised itself by economic collaboration with the enemy. If we finally take into account the fact that to the ranks of the traditionally privileged the war added a new and particularly objectionable class of black marketeers and speculators, grown rich and powerful by exploiting the public, we realize why in all liberated countries there was a universal demand for drastic measures and far-reaching reforms intended to wipe out the abuses of the occupation.

In most of these countries the conservative elements, in closing their ranks against the new popular forces which had emerged during the occupation, were not courageous or far-sighted enough to dissociate themselves from the class which had comprised or discredited itself by profiteering and collaboration.

Emergence  
of new  
popular  
forces

The result was that in most liberated countries the Right lost heavily in influence and following and new progressive parties were swept into power by the mere force of events.

In all these countries one of the first concerns after the liberation was to deal with the economic and financial chaos bequeathed by the occupation. Heavy penalties against collaboration and taxation of war profits,

Economic  
policies  
followed  
in European  
countries.  
Planned  
economies



blocking of currency and accounts, control of prices, production and distribution are characteristic features of the policies followed in most occupied countries after the liberation. Incidentally, these measures were necessary not only in order to satisfy public opinion and reduce the existing inequality of incomes but also from a purely technical point of view in order to deal effectively with the large accumulation of purchasing power in the hands of a small minority which had taken place during the occupation and which, if allowed to persist, would have frustrated all efforts at monetary and financial stabilization. It is no accident that those countries which have been more thorough and more courageous in dealing with their profiteers have also shown the most rapid progress towards recovery (I have particularly in mind Belgium and Czechoslovakia).

I am convinced that the effective liquidation of this backlog of accumulated purchasing power resulting from the exploitation of the desperate economic conditions prevailing during the occupation was a prerequisite for the establishment of a sound economic and financial situation in the liberated countries.

Furthermore, under the conditions of scarcity of all essential commodities in which these countries will continue to find themselves for a considerable period of time, Government supervision and control of private enterprise appears as

the only practical alternative to monopolistic exploitation of the public on the part of producers and traders.

I wish to stress with particular emphasis the fact that with the exception of a small Right-wing minority, these measures have the support of all major parties in the European countries. One of the most significant developments in European political and economic life is the fact that conflicts and antagonisms today are less about the ends of economic policy about which there is a large measure of agreement than about the means through which these ends will be achieved. While the section of the population which is under Communist influence believes that these ends can be achieved only through totalitarian methods, the democratic progressive parties are convinced that the freedom of and respect for the individual can be preserved within the framework of a planned economy. There is little doubt today that in Western Europe at least the democratic tradition will not be abandoned and that economic changes, however radical, will not lead to the enslavement of the individual. At the same time, however, it is essential to recognize that a return to the pre-war economic set-up of unfettered private enterprise and reliance on the mechanism of the market is not desired by the European masses.



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When compared with those developments in European countries, the situation in Greece appears quite exceptional.

No other country has suffered as much as Greece from the evils inflicted by inflation and occupation. In all other countries the maintenance during the occupation of rationing, price control and taxation, however imperfect, had kept the monetary and financial situation under control. I have shown in Section II that in Greece the Germans used inflation as the main instrument of their policy of spoliation and exploitation and that under the avalanche of new money with which they flooded the country its financial and monetary mechanisms collapsed and the population was left at the mercy of profiteers and speculators.

If we take into account the fact that the losses and devastation suffered by Greece have been more grievous than those of any other country and that these losses have reduced her already limited resources to a mere fraction of their pre-war level we realize that economic recovery in Greece and a return to tolerable conditions of life required, in addition to substantial outside assistance, drastic internal measures to reduce the extreme inequality of incomes created by the occupation and ensure that local resources would be available to meet the most urgent needs of the population.

The situation facing the country after the suppression of the Communist rising in January 1945 can be summarized as

Economic conditions in Greece after suppression of Communist rising:

need for drastic measures and outside assistance

follows:

Local resources had been reduced by the war to less than half the pre-war level and communications had been completely destroyed and disorganized.

Reduction  
in local  
resources

Supplies of food represented only a small fraction of the country's minimum needs, clothing and medical supplies were available in minute quantities at exorbitant prices, industrial production was at a standstill through lack of fuel, raw materials and spare parts, agricultural producers were without the most essential means needed to carry on their work.

Over one-third of the population had been reduced during the war to utter destitution due to loss of health, home, job or family support. The remaining were being maintained on a bare subsistence level and had reached the limits of physical exhaustion and mental anxiety. The children, in particular, were in a terrible condition. At the same time, a small minority consisting mostly of traders and industrialists and probably not exceeding 15 percent of the population, were living in real comfort, if not luxury, and were continuing to accumulate large profits which they were instantly investing in gold. In spite of the fact that its prosperity was in such sharp contrast to the plight of the majority of the people, this class recognized no obligations towards the community, paid no taxes, refused to accept any control or limitations of its profits and activities and through its distrust of the national currency was intensifying the monetary chaos in the country.

Extremes of  
poverty and  
wealth



17/1/36

The public finances were in a deplorable state, with revenue meeting no more than 25-30% of expenditure.

Public  
finances:  
inadequate  
revenue

Revenue in Greece had always consisted overwhelmingly of indirect taxes and especially taxes on tobacco, alcohol, salt, matches and of heavy import duties on such necessities as wheat, sugar, coffee and practically every other commodity imported in the country. The sharp reduction in consumption and imports and in the incomes of the majority of the population reduced correspondingly the State's revenue from this source. Direct taxation, on the other hand, which even before the war represented a small proportion of total revenue, had been abandoned during the occupation. Moreover during the interval between the collection of revenue and its spending, the value of whatever sums were being collected was further reduced by the continuing depreciation of the currency.

Expenditure, on the other hand, consisted overwhelmingly of salaries of civil servants and army personnel, pensions and public assistance to certain categories of the population which had been hit exceptionally hard by the war.

Nature of  
public  
expendi-  
ture

It is important to realize that, although there was undoubtedly scope for economy, the level of salaries and pensions was so low that any reduction was inconceivable.

I am stressing this point because the situation has often been misrepresented. British experts, in particular, have repeatedly stated that public expenditure was excessive.

and pensions was the main cause of inflation and that its reduction was necessary in order to achieve monetary stability. I shall presently show that the Budget deficit was only one of many factors responsible for the inflationary conditions prevailing in the country. I wish only to emphasize here that the expenditure for salaries and pensions was a charge which the community was under a direct obligation to meet. The large Budget deficit in Greece was evidence of the inadequate contribution made by those who were in a position to pay, not of any extravagance on salaries and pensions. Greece had suffered a total economic collapse and it was only to be expected that large numbers of its population would be unable to maintain themselves or obtain productive employment until the country had somewhat recovered. Those who insisted on a wholesale dismissal of civil servants and a reduction in salaries and pensions refused to recognize that the monetary stability which would have been achieved by those means would have condemned thousands of Greeks to starvation.

As already stated, there were other potent factors of inflation besides the Budget deficit.

Large sums were being advanced by the Bank of Greece to Banks, public corporations and other institutions whose assets had been wiped out by inflation, in order to enable them to pay the salaries and wages of their personnel. The fact that the numbers compulsorily maintained on the payrolls (even though at starvation salaries) exceeded the real needs

Other sources  
of inflation:  
a) advances  
by Bank of  
Greece



of these institutions reflects again the extent of economic disorganization in the country.

Another major cause of inflation was the expenditure of British forces in Greece. This expenditure, which ran at the rate of over £3,000,000 per month, was nominally offset by equivalent sums in £ credited to Greece. In actual fact, however, the sterling balances thus accruing to Greece were making no contribution to the country's immediate needs because of Great Britain's inability to convert them into corresponding goods and services. Thus, while Greece was currently providing goods and services to Britain out of her depleted local resources, she was unable to obtain equivalent imports from Great Britain which would have offset the inflationary effects of British expenditures in Greece. Even the remittances sent by Greeks abroad to their relatives at home which had always constituted an extremely valuable source of foreign exchange for the country, and which represented over £2,000,000 per month, had a definitely inflationary effect since they created additional purchasing power in the country at a time when, due to the world shortage and control of supplies, they could not be converted into imports.

b) Expenditure of British forces

During the first months of 1945 the dangers to the economic and monetary stability of the country arising from the existence of these strong inflationary pressures were not fully realized because the policy of internal cancellation of the monetary circulation followed after the liberation had created a considerable margin for new issues of money without



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immediate danger of inflation. This margin, however, was soon exhausted and the pattern of runaway inflation which had become familiar under the occupation was there again to plague the population and hold up economic recovery.

Meanwhile the assistance which the Military Authorities at first and then UNRRA brought to the country, however substantial in itself, was intended to meet only the minimum needs of the population. It is necessary to recall here that the promises of generous assistance made during the war and the picture of unprecedented plenty which irresponsible Allied propaganda had been dangling before the eyes of a hungry and weary people had raised such high expectations among the population that a state of mind had been created which could not easily reconcile itself to the need for further sacrifices and hardships. The actual assistance given to Greece, on the other hand, implied continued privations and exceptional exertions on the part of the population if recovery was to be achieved. It assumed the full mobilization of local resources and the maximum utilization of imported supplies and made no allowance for the difficulties facing the country and the need for some let-up felt by the population.

Insuffici-  
ency of  
foreign  
assist-  
ance

The imported foodstuffs provided no more than a basic ration consisting overwhelmingly of bread and other carbohydrates (over 80 percent of the calories in the ration were derived from grains and pulses). This ration had to be supplemented from the small local supplies in order to ensure a tolerable diet to the population and this in turn meant that the level of wages and



17/1/40

salaries was still dependent on the prices ruling on the free market and thus, indirectly, on the gold sovereign quotations. All other supplies, i.e., clothing, means of transport, agricultural and industrial supplies, similarly fell short of the urgent needs of the country. It is worth mentioning that while the urgent requirements of the country during the first two years after the liberation amounted to 600 million dollars,\* actual imports during that period will not exceed 350 million dollars. With such a large gap in resources, economic and monetary stability and some measure of recovery would have been possible only if all sections of the population had been prepared to make the necessary sacrifices and reduce their consumption to a minimum level.

Not only was the outside assistance limited, but its effective utilization raised difficult problems of organization and administration.

In accordance with the principles governing UNRRA policy, relief supplies had to be distributed strictly in accordance with need and the necessities of life had to be

Difficulties  
of organizing  
relief  
and rehabilitation.

UNRRA principles involved

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\*For calculations on which this figure is based see p. 146.

provided to all sections of the population alike, irrespective of the purchasing power at their disposal. UNRRA principles also required that no unreasonable profits be allowed from the sale of UNRRA goods.\*

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\* See Resolution No. 7 of First Council of UNRRA:

"3. . . distribution should be so conducted that all classes of the population, irrespective of their purchasing power, shall receive their equitable shares of essential commodities. Where supplies are sold to consumers, prices should be set at such levels as to facilitate the flow of supplies into the proper hands, and to avoid maladjustments in the price structure of the areas."

"4. . . distribution of relief and rehabilitation supplies should take place under effective rationing and price controls. The suppression of black markets should not be left to general pronouncements and decrees, but should be the subject of active measures of enforcement applied vigorously and unrelentingly."

"5. . . the Government . . . should take appropriate measures to insure that so far as the distribution within a liberated territory of relief and rehabilitation goods is done through private trade, the remuneration earned by private traders for their services is no more than is fair and reasonable."

"6. . . use should be made to the maximum practicable extent of normal agencies of distribution (Governmental, commercial, cooperative) to the particular ends of combating inflation and restoring normal economic activity. This principle, however, cannot be pursued at the expense of measures found necessary under emergency conditions to insure an adequate control of the distribution of supplies and their direction to the appropriate consumers."



From the very first, the UNRRA Mission in Greece insisted on the strict application of these principles. It was not, however, fully realized at that time how much the application of these principles depended on the existence of an efficient and well-organized administration. Nor was it realized what a revolution in methods of distribution these principles entailed. The fundamental fact of the situation was that if supplies were to be distributed in accordance with need and not in accordance with demand it was not possible to rely on commercial principles and normal channels of distribution under the conditions of extreme inequality of incomes prevailing in the country.

I have already mentioned that over one-third of the population had been reduced to utter destitution. The free distribution of UNRRA supplies to this category of the population implied, however, the existence of a nation-wide machinery for ascertaining need, issuing indigents' cards and checking the abuses which inevitably accompany such a system.

As regards the remaining sections of the population, only through rationing and controlled distribution was it possible to ensure that the limited supplies provided by UNRRA would not go to the highest bidder.

A fairly efficient machinery for relief distribution had been devised by the Swedish Red Cross Commission which utilized the normal commercial channels but at the same time

Distribution of foodstuffs

ensured adequate control and supervision. This machinery was maintained in its fundamentals after the liberation but its functioning deteriorated after the departure of the Swedes. Moreover, this machinery was in existence only in the region of the capital and it had been devised to take care of the small quantities of relief supplies dispatched to Greece through the blockade. It could not therefore, without drastic adaptation, handle the much larger quantities imported by UNRRA.

The distribution of clothing, in particular, raised forbidding problems of organization. At the initiative of UNRRA it had been decided that used clothing would be distributed free to the indigents through local committees while new clothing, of which UNRRA had imported only limited quantities, would be sold at low prices to the neediest sections of the remaining population. It was generally recognized, and was particularly insisted upon by UNRRA, that the class of wage earners and salaried workers and their dependents were by far the neediest section. In order to carry out the distribution of clothing in accordance with this principle it was necessary to register over 500,000 persons, issue special ration cards to them, fix a ration of clothing at a time when arrivals were irregular and the total supplies that would ultimately be sent unknown, organize controlled sales through shops and determine the degree of choice that was compatible with the range of supplies and the requirements of efficient distribution.

Distribu-  
tion of  
clothing



12/1/44

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The problem of utilization of raw materials and other industrial supplies raised even greater difficulties. It was again necessary to ensure that the limited supplies imported would be used in accordance with UNRRA principles. This meant controlled production and distribution on the basis of need of the goods manufactured with the aid of UNRRA supplies. This control had to extend to the types and quantities of goods to be produced, their cost and conditions of sale to the public and the prices at which they would be made available to the population. These were tasks which had never before been undertaken by the Greek Administration. They arose from the scarcity of supplies existing in the country and the extreme inequality of incomes created by inflation. It is therefore no wonder that the experience for these tasks was lacking and also that the need for control was not generally recognized, besides being violently opposed by vested interests. It is clear, however, that merely to sell the raw materials to manufacturers, as they asked, and leave them free to produce and sell the goods demanded by the market would not have ensured the utilization of imported supplies in accordance with UNRRA principles. Moreover the question then arose: at what prices were these raw materials to be sold to manufacturers: Cost prices would have given abnormally high profits to manufacturers producing for a sellers' market. Such profits were actually made during the Military period when the small quantities of raw materials

Utilization  
of raw  
materials

17/1/45

h2

imported in the country were delivered to manufacturers at cost prices often representing only 1/10 of the prices ruling on the free market on the basis of which the prices of the manufactured goods were determined.

The sale of UNRRA supplies at free market prices, on the other hand, that is at several times their actual cost, would have been an official admission that the imported supplies were to be used to satisfy the needs of those possessing the largest purchasing power.

Similar difficulties arose in the case of means of transport, agricultural supplies and other UNRRA imports. It was therefore obvious that the effective utilization of UNRRA assistance and the fulfillment of the obligations undertaken by Greece under the UNRRA Agreement called for an all-out drive on the part of the Greek Administration and for the performance of new and difficult tasks which it had never undertaken before.

It was one of the worst tragedies of Greece that this call was made on its administration at a time when the latter was least able to meet it.

Before the war Greece was well justified in claiming that hers was the most honest and efficient administration in the Balkans.

State of  
Greek  
Adminis-  
tration

In the course of this exposition I have repeatedly referred to the collapse of the administrative machinery of



17/1/46

the country which had taken place under the occupation. This is no mere figure of speech. Only those, however, who have had first-hand experience of the extent of this collapse can realize what a severe blow it has dealt to the country's organized life.

Public servants in Greece had always been poorly paid but so long as they could manage to make ends meet they remained honest, devoted and hard-working.

During the occupation, inflation reduced their salaries to a level where they could not meet even a few days' expenses. They had to sell all their possessions and live under conditions of virtual destitution. For over four years under-nourishment, disease and anxiety were their daily lot. Under these conditions, to remain honest in the midst of innumerable temptations and widespread corruption required a strength of character beyond the capacity of the average human being.

In the hard struggle for survival in which they found themselves engaged, the discharge of their duties became a secondary consideration. Moreover, work during the occupation had been proclaimed unpatriotic and no discipline could be enforced by the discredited Governments which were deriving their authority from the enemy. Nor could any effective work be accomplished in a country split up into six isolated regions, occupied by three ruthless enemies with overlapping and often conflicting authority and lacking the most elementary means of communication. During the last years of the occupation guerilla fighting

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and reprisals drove Government officials from the countryside and increased the number of idle persons maintained by the State in the cities.

The quality of the Administration suffered further serious deterioration through the appointment of large numbers of new employees by the enemy-sponsored Governments without proper selection or safeguards.\* In the end every appointment came to be considered as a means of assisting a person in need and unsuitable appointments became the rule rather than the exception.

Finally, while the bulk of the civil servants showed an exemplary attitude and maintained an uncompromising spirit towards the enemy at considerable personal risk, certain officials, as in all occupied countries, discredited themselves by collaborating with the enemy and serving his interests. The number of these officials was small but their behavior influenced decisively the whole conduct of the Administration since they were in most cases high ranking officials holding key posts.

Thus, Greece was emerging from the war with its Administration in a state of disintegration and a body of civil servants so weakened by privations and hardships that they no longer possessed the will and capacity to work, while their outlook had been colored by the habits acquired during the occupation.

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\* The total number of civil servants did not increase by more than 20-25% but the number of new appointments was considerably larger because of numerous vacancies due to increased deaths and retirements.



17/1/48

Even if it had remained intact, the Greek Administration would with great difficulty have been able to discharge the heavy responsibilities imposed upon it by the tasks of relief and rehabilitation, which we have outlined above. Before the war the functions of the State in the economic field were limited to the supervision of the activities of the individual and the protection of the public against exploitation and profiteering. These supervisory functions were effectively performed by the Greek Administration but no positive action or general control of production and distribution was required from it since private enterprise then met adequately the needs of the population in this field.

It was therefore obvious that unless a drastic reorganization of the country's administrative machinery were undertaken without delay the work of relief and rehabilitation was bound to suffer and economic recovery to be seriously held up.

This then, was the picture which Greece presented at the time of the suppression of the Communist rising in January 1945. It was the picture of a country which had to start all over again rebuilding not only its material wealth but also the very foundations of its society.

With the degree of outside assistance which was forthcoming the odds were heavily against recovery unless the need for discipline and sacrifices was realized by all sections of

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the population and an all-out and sustained effort was organized by a Government bent with single-minded devotion on the work of reconstruction.

In the first place it was necessary to explain to the population the reason for the inadequacy of the assistance given to the country and point to the continuing shortages of goods and shipping and to the huge requirements of a war-devastated world. At the same time it was imperative to combat vigorously the dangerous conception which had been skillfully instilled in the minds of a distressed and bewildered people by those whose interests were against recovery to the effect that Greece was too impotent to do anything about her condition herself and that her economic recovery was the exclusive responsibility of her Allies, for whom she had sacrificed her all during the war. By appealing to the self-respect of a proud people it would have been possible to replace the atmosphere of bitterness, helplessness and recrimination which prevailed in the country and which paralyzed every constructive effort by a determination to rebuild without delay the economic and social life of the country, however inadequate the means at hand.

Need to explain insufficiency of assistance to population and combat feeling of despair

In the second place it was necessary to realize that only through drastic and far-reaching measures could the desperate situation facing the country be improved.

Need for drastic measures

I shall enumerate here the most urgent of these measures:



17/1/50

1) Reorganization of Administration

I have shown the deplorable state in which the Greek Administration emerged from the war and the need for drastic reorganization. The task was a difficult but by no means an impossible one. It required, however, on the part of the Government, a full realization of the importance of administrative reorganization for the recovery of the country and of the responsibilities which such a task placed upon them, together with complete honesty of purpose and absence of political bias.

a) Reorganization of administration

The first requirement was to remove compromised or discredited officials and appoint able and honest men to key posts. That such men existed in the Greek Administration I know from personal experience although it was difficult to discover them. In most cases they had been relegated to minor posts by the unscrupulous ones who had come on top during the occupation and were still there many months after the liberation.

The second requirement was to examine the records of the civil servants appointed during the occupation and retain to their posts only those found suitable.

The third and probably most important requirement was to increase sufficiently salaries, which inflation and the lack of state revenue had reduced to a fraction of their already low pre-war levels, in order to enable the public servants to regain their working efficiency and self-respect.

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The fourth requirement was to restore discipline in the ranks of the civil service and enforce the severe sanctions against neglect of duty and dishonesty which existed pre-war but which had not been applied since the occupation.

It is hardly necessary to say that the success of such a reorganization would have greatly depended on the spirit in which it would have been carried out. Only if the need to give to the country an honest and efficient administration had remained the sole consideration of those carrying out the reorganization could one expect any beneficial results from such a reform. Otherwise, and this unfortunately is what actually happened, the whole operation would have created more upheaval and insecurity in the ranks of the civil service and given rise to more opportunities for victimization and favoritism than it would have contributed to lift the Greek Administration from its degraded state.

2) Restoration of Monetary Stability

No country has ever been able to rebuild its economy in the midst of the chaos and anarchy of inflation. In the case of Greece, whose population had already experienced four years of runaway inflation and had become extremely sensitive to inflationary phenomena, the smallest sign of monetary instability produced a general flight from the currency, accompanied by speculative rises in prices and hoarding which paralyzed the whole economy of the country. The restoration of monetary stability was therefore a prerequisite

b) Restoration of monetary stability



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for the success of all other efforts of reconstruction and could not be postponed as was advocated by those opposed to drastic measures, until general conditions had gradually improved.

In a country, however, suffering from an extreme scarcity of all kinds of goods and the after-effects of prolonged inflation, monetary stability could be achieved and maintained only through the most efficient monetary management, the heaviest possible taxation of excess purchasing power and the strictest control of prices, wages and profits.

Due to the virtual cancellation of the monetary circulation at the time of liberation there was no need for measures such as the calling-in of notes and the blocking of bank balances adopted in other countries.\* To that extent the monetary problem had been simplified in Greece. In terms of national currency the excess purchasing power arose, not from past accumulations,

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\* In saying this I am only indicating that the cancellation of the currency facilitated the subsequent solution of the monetary problem. As a matter of policy, I have always considered and still consider this measure as completely indefensible. This is what I wrote in a Memorandum submitted to the Allied Governments in April 1945. "Such a policy was entirely unjustified since there was no reason to allow any further depreciation of the currency after the departure of the Germans, even less to reduce its value to hardly 1/500 of the value it possessed at the time of liberation. This was a form of crippling and indiscriminated taxation of the public which created for the Greek authorities a large margin for spending money without immediate danger of inflation."

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but from current issues of new money which were due to the fact that total expenditure at any given moment exceeded the volume of goods and services available at the level of prices prevailing at that moment.

This is a phenomenon familiar to all countries during the war. In most countries it has been possible to maintain a relative monetary stability in spite of this excess purchasing power through the adoption of the following methods and policies:

Measures  
adopted  
in other  
countries

- a) heavy progressive taxation of incomes above the level needed for a minimum maintenance in accordance with each country's standard of living;
- b) equitable distribution among the population of basic necessities through rationing and similar methods;
- c) stabilization of the cost of living through price control and subsidies;
- d) stabilization of wages on the basis of the cost of living;
- e) increases in the prices of non-essentials through which considerable amounts of purchasing power could be absorbed;
- f) reliance on voluntary or compulsory saving and lending to take care of the remaining excess purchasing power in the hands of the public and prevent it from appearing



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on the market as demand for scarce goods and services.

In all countries which have experienced a large expansion of monetary incomes, saving and lending by the public have proved a most valuable cushion against strong inflationary pressures and have helped to maintain a sufficient incentive to work at a time when earnings could not be currently converted into goods and services.

In Greece, however, due to the cheap distrust for the national currency which was the product of wartime inflation, it was impossible to expect saving and lending to take care of the excess purchasing power in the hands of the public. This meant that expenditure had to be watched more carefully than in other countries and that taxation had to be the main means of mopping up the excess purchasing power.

Even more drastic measures needed in Greece

The Greek monetary situation could therefore have been stabilized only if the measures followed in other countries had been adopted from the very first and had been carried out with even greater vigor and determination.

In the first place it was necessary to recognize and explain to the population that the volume of goods available in the country, together with imported supplies, could not, even if distributed with the utmost equity and fairness,

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provide more than a bare subsistence to the population. Without equitable distribution, on the other hand, the limited supplies available would have gone to those with the largest purchasing power and the mass of the population would have been condemned to an intolerably low level of subsistence, which would have forced them to ask for increases in money incomes in the vain hope of securing a share of the available goods.

The result would have been runaway inflation and the further dispossession of the public in favor of a small minority of traders and industrialists,\* i.e., the continuation of the evils experienced during the occupation.

Monetary and economic stability could not therefore be achieved unless all sections of the population were prepared to accept a very low level of consumption and the continued sacrifices which such a level entailed. This meant low and stable real wages and salaries, curbs on profits,

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\* I should like to explain here why I do not include agricultural producers among the section of the population which has benefited from scarcity and inflation. In Greece, in contrast to other countries, the widespread devastation of the countryside due to fighting and reprisals, the severe losses suffered by the agricultural population and the complete destruction of communications have not allowed the agricultural producers as a whole, with the exception of those in the proximity of urban centers, to improve their financial position relative to other sections of the population. Even when prices in the urban markets were highest the producers received only a fraction of those prices, the bulk going to truck and seacraft owners and to middlemen.



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rationing, price control and heavy taxation of war profits and of current excessive earnings.

It was necessary to persuade wage-earners and salaried workers that the means were simply not there for more than wages a minimum subsistence and that high money wages, which the volume of goods available in the country could not support, produced even higher prices and had always proved against the real interests of the working class. There can be no doubt, on the other hand, that insufficient remuneration also means low productive capacity and unwillingness to work and that it was bound to retard economic recovery in a country like Greece where the situation called for hard work and exceptional exertions on the part of all. Only an earnest appeal to the sense of duty and patriotism of the workers and the hope of steady improvement of their position through increased production might have produced the necessary effort in spite of continued privations. Stabilization of wages

No response, however, could be expected from the working class so long as other sections of the population were able to live in comfort and even accumulate profits. It was impossible to persuade the workers that their duty was to work hard and at the same time do without many of the essentials of life so long as shops continued to be full of good things available to anyone with money to pay for them and there were all the outward appearances of abundance.

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Price control in order to prevent traders and industrialists from making excessive profits and taking advantage of existing scarcities, heavy taxation of war-time profits and of current high incomes and rationing of necessities were the only means for ensuring a more equitable distribution of the national product and convincing the poorer sections of the population that they were no longer alone in making all the sacrifices.

Control of  
profits,  
taxation  
and ration-  
ing

With such measures the problem of the Budget would have solved itself, since, as already stated, the bulk of government expenditure consisted of salaries and pensions, that is, of transfer payments for which the proceeds of taxation, on the scale advocated above, would have proved amply adequate while price control would have been keeping the cost of living and consequently salaries and pensions at the lowest level compatible with real costs of production.

Budget

There can be no question that under the conditions prevailing in Greece neither price control could be perfect nor could the cost of living take account of more than bare necessities, especially at the beginning. Extremely scarce items, like clothing, footwear, dairy products, might have had to be excluded, at any rate at the beginning, from a cost of living computation that would have claimed to be realistic. At the same time the widespread destitution and poverty prevailing in the country would have called for

Cost of  
living  
and price  
subsidies



subsidized prices of basic necessities such as bread and other relief foodstuffs. Not only would such subsidies have prevented extreme hardship in the case of the unemployed, invalids or large families with inadequate incomes, they would also have convinced the working class of the sincerity of the Government's efforts to alleviate the lot of the poor and this in turn would have meant a great deal for the country as a whole in terms of social peace and reduced class antagonisms.

I have no doubt that, with careful spending, the Budget deficit would have been closed by such measures and that one of the main causes of inflation would thus have been removed. If I may refer to personal experience, the special levy on traders and industrialists which I introduced in the summer of 1945 increased so considerably public revenue that only one month after the imposition of the levy public revenue was covering 75 percent of expenditure and this at a time when the war-profits tax, being applied without determination, was yielding only negligible sums.

The other two sources of inflation, namely the advances by the Bank of Greece to institutions and enterprises and the expenditure of British forces in Greece similarly called for drastic and vigorous action.

As regards the advances of the Bank of Greece, a careful scrutiny would have revealed that there was room for considerable reductions. Many of the Banks and enterprises which were obtaining large sums monthly in order to meet

Reduction  
of Advances  
of Bank of  
Greece to  
enterprises

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their payrolls, while not currently doing business on a scale enabling them to earn sufficient amounts of drachmas, possessed substantial assets which they should have been called upon to liquidate in order to meet their obligations. The criterion applied, namely of whether they currently earned adequate amounts of drachmas, was misleading since many of these enterprises had converted their holdings into stable values and had no right to expect to keep these holdings intact under conditions requiring all-round sacrifices.

These considerations of course do not apply to those public institutions such as hospitals, orphanages, etc., whose funds had been wiped out by inflation.

Reduction of  
credits to  
industry and  
commerce

Even more care was needed in the granting of credits to industry and commerce. These were not granted by private banks out of the savings of the public, they were provided by the Central Bank out of new issues of money. They were therefore justified only to the extent that their proceeds were actually used to stimulate production and increase the flow of goods. There were many instances when such credits could be productive, especially in connection with the processing and movement of agricultural products. Industry as a whole, on the other hand, possessed sufficient liquid assets, mainly in the form of gold, not to require such assistance, except in cases of production organized in accordance with policies laid down by the Government in which industrialists were not interested and in which they were not prepared to invest funds. I have already



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referred to the need for this type of production. The continuing depreciation of the currency, however, rendered borrowing a very profitable operation for traders and industrialists and there was a clamor for such credits. In many cases credits obtained from the Bank of Greece were instantly being invested in gold, thus intensifying the depreciation of the currency.

I have already mentioned the inflationary effects of British expenditure in Greece. An agreement signed in London in September 1944, i.e., a few days before the liberation of the country, provided that the British authorities in Greece would refrain from making local purchases of scarce supplies such as food.

Reduction  
of British  
Expenditure  
in Greece

The rate of £3,000,000 per month at which the British authorities have been obtaining drachmas from the Bank of Greece shows, however, that the spirit of the agreement was disregarded. A rate of expenditure, corresponding to almost 1/3 of the value of total Greek prewar imports represented a very heavy burden on a ruined country like Greece. Whether these sums were spent directly on goods, as in the case of feeding in restaurants by the troops and purchases in shops and in the open market or whether they were spent on services which again represented increased money incomes for those providing the services or finally on subsidies and payments to agents, their net result was to increase the total volume of monetary demand in the country without any corresponding increase in the supply of goods.

It was not easy to assess from the beginning the extent to which the sterling balances thus acquired by Greece would be available to pay for imports since Britain's inability to provide imports became only gradually apparent. Many, still imbued with an implicit faith in the strength of the sterling, went as far as to consider the expenditure of the British forces as a valuable source of foreign exchange for the country's immediate needs.

It was, however, obvious that this type of expenditure, which accounted for a considerable proportion of the new issues of money, was an obstacle to monetary stability and required drastic curtailment. A strong Government, bent on stabilizing the currency, should have had the courage to explain the real position to the people and request the British to restrict their expenditure and at the same time to provide goods against the sterling currently accruing to the country instead of allowing it to accumulate in London. In other words, it was necessary to recognize that Greece was not in a position to make long-term investments or grant long-term credits to any country but was herself in need of such assistance.

### 3) The Work of Relief and Rehabilitation

I have dealt at great length with the problem of monetary stability because I am convinced that without a stable currency all other efforts for the rehabilitation of the country were bound to be frustrated.



17/1/62

A country in which it becomes more profitable to hoard than to sell goods, to accumulate stocks than to produce, to speculate than to work is a country where the prospects of recovery are very remote indeed.

This, however, does not mean that the desperate situation prevailing in Greece could be improved by monetary stability alone. An all-out effort to restore the health and self-respect of the population, repair the worst damages of war and re-start production was urgently needed at the same time.

c) Relief  
to the population and  
rehabilitation of  
economy

I have already referred to the need for the best and most efficient utilization of imported supplies and local resources and to the difficult tasks of organization and administration which such a utilization imposed upon the country. Whether in the field of distribution of food, clothing and medical supplies or in that of utilization of transport, raw materials, fuel and agricultural supplies, the same task faced the government: to create the conditions that would ensure that the most important needs would be met first and that all available resources would be utilized in order to increase the supply of essential goods in the country. I have shown that under the conditions prevailing in Greece only through the positive action of a government fully conscious of its responsibilities in this field could these ends be achieved. I have also shown that the Greek Administration might have risen to the occasion if drastically reorganized.

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I am not suggesting that with the means available it was possible to restore the productive capacity of the country to the full and meet all urgent needs. I am convinced, however, that a very considerable improvement could have been achieved especially in the field of industrial production, where destruction had been more limited and raw materials, fuel and labor were available in relatively larger quantities. It is impossible to exaggerate the importance of an increased flow of manufactured goods for the economic recovery of the country and the attainment of monetary stability. Not only prices would have been lower and the cost of living more stable but also substantial quantities of agricultural products held back by the peasants would have been released in exchange for desperately needed industrial goods. I am convinced that the Greek industry could have supplied a large proportion of the urgent needs of the public for soap, textiles, cigarettes, fertilizers and other chemical products, building materials, alcohol, jam from currants and so on. It would, however, have done so only under conditions of monetary stability, only if it had worked at maximum capacity and only if the types and quantities to be produced had been decided in accordance with needs and not merely with monetary demand. I have already shown that this required Government control of

Need to  
increase  
production



17/1/64

industry during the period of emergency and until the law of supply and demand could again be relied upon to ensure an equilibrium that would be acceptable both from the social and economic points of view. Similarly the restoration of communications and of agricultural production depended on the most efficient use of imported supplies and called for effective action or supervision on the part of the government. The results would not have been the same as in the case of industry because of the far more widespread destruction but substantial improvement might have been achieved.

In the preceding sections I have outlined the measures which would have enabled Greece to deal effectively with her urgent and immediate problems and recover from the worst blows of the war and occupation.

Economic  
reconstruction

The problems of making good the huge destruction and devastation of war and adjusting the Greek economy to post-war conditions raised much wider issues and called for a long-term plan of reconstruction based on an understanding of the realities prevailing both inside and outside Greece and dealing with all aspects of the Greek economic situation and with the future prospects of the Greek economy.

It should be noted, however, that the adoption of the measures advocated above would have greatly facilitated the solution of the longer-term problem since by stabilizing the situation and giving to the country an adequate administration these measures would also have provided the

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framework within which alone longer-term planning was possible. Without such a framework there was a grave danger that the country would find itself unable to absorb whatever assistance for her reconstruction would be forthcoming or take advantage of the facilities, many of them non-recurring, placed at the disposal of the liberated countries for the rebuilding of their economies.

In the first place it was necessary to survey in detail the losses and destruction suffered by the country and establish an order of priority for reconstruction needs.

In the second place it was important to assess the internal and external resources of the country and the extent of outside assistance that could reasonably be expected and begin as soon as practicable the task of rebuilding the ruins of war.

In the third place it was essential to make sure that the limited foreign exchange resources of the country would be used with the utmost care and economy and that the maximum advantage for the country as a whole would be derived from any outside assistance granted to Greece. I am convinced that such a policy would have been of much greater help to the country in obtaining the means for the reconstruction of its economy than mere appeals to justice and morality.



17/1/66

Finally, beyond the immediate tasks of reconstruction, there were difficult problems facing the country which required careful examination and bold solutions. Such were the problems of exports, the disappearance of foreign markets, the decline in the invisible sources of foreign exchange and the serious difficulties in the balance of payments which the country would soon experience as a result of these developments, the problem of overpopulation and unemployment and the need to develop the national resources in order to enable the country to support an increasing population. These problems, which involved the very future of Greek economic life, could be solved only if the country regained confidence in herself, approached the Great Powers with concrete and practical proposals and demonstrated to them that it was in their interest and certainly within their power to help her overcome her difficulties.

I have enumerated in some detail the tasks facing Greece at the time of the suppression of the Communist rising in order to bring out more clearly the conditions on which Greek economic recovery depended and the heavy responsibilities which any government assuming power was undertaking towards the country.

I have already stated that the suppression of the rising was unfortunately allowed to be interpreted as a victory of the Right. I say "unfortunately" because the drastic and unpopular measures needed for economic recovery, which were

The responsibilities of the Right

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bound to hit sectional interests and be strongly opposed by them, required the active cooperation and participation of all important political elements in the country and a share by all in the corresponding responsibilities. Such a cooperation would moreover have prevented any party from making political capital out of the inevitable difficulties and disappointments of the hard times ahead.

There is hardly any country in Europe where such a cooperation between parties was not found to be not only in the general interest but also in the interest of the parties themselves.

In Greece, developments were different. With the Left temporarily discredited, the Right found itself in undisputed control of the country's political life (although by no means of its administration which hardly existed). Could one hope that it would prove equal to its responsibilities?

This was the question which any person interested in the future of a brave and loyal people and in particular those who, through their intervention, brought about this result, should have asked themselves at that time and decided their actions accordingly.

I am convinced now, as I was convinced then, that the answer to this question was a definite and unequivocal no.

I shall have here to say unpleasant things about some people but I feel I would be evading my responsibility if I did not try to give as true a picture of the real situation as possible.



To anyone who had watched developments in Greece it was clear beyond any possibility of doubt that the Right had neither the positive program needed for the solution of Greece's difficult problems nor a strong leadership able to rally a distressed and bewildered people, but relied for its following exclusively on the fear of Communism and of Slav domination which had seized a large proportion of the population as a result of the December rising.

The leadership of the Right consisted of the old guard of politicians who were discredited already before the war and who considered office as a means to satisfy and retain political friends and followers rather than as a public service for the attainment of general ends.

The leadership of the Right

Its financial support came from the powerful group of industrialists, merchants and financiers who sought, through political influence, to maintain their control over important sectors of the country's economy.

This situation existed already before the war but with a healthy and alert public opinion, a good administration and normal economic conditions, the pressure of these powerful vested interests was kept within limits.

In the atmosphere prevailing during the occupation the equivocal attitude of many of these politicians and their connections with vested interests which, as I have already shown, had by then abandoned all decency and restraint, discredited

17/1/69

still further these politicians of the Right and made the prospect of their return to power appear as very remote indeed.

I have already shown how the universal desire for new leaders and new programs was finally frustrated and how the tactics and methods of the Communists wrecked a genuine movement for popular democracy.

After the December rising indignation and horror at the excesses committed by the Communists became the dominant feeling among the largest proportion of the population, overshadowing any other factor and consideration. The Right was quick to capitalize on this and re-emerge as a powerful political force. In the tense atmosphere prevailing in the country after the suppression of the rising and the universal fear of communism, there was little scope for clear and objective thinking and consistency.

The same people who, a year ago, were considered as ghosts of the past, now were allowed to claim the political leadership of the country. The same group of industrialists, traders and profiteers who had earned universal hatred for their ruthless exploitation of the population during the occupation, were now once more allowed to proclaim themselves as "national" figures, as leaders of the "national" industry and the "national" commerce and so on.

Even full-scale collaborators, who, for over four years, had lived in fear of popular revenge, came out as fervent nationalists



17/1/70

and defenders of the sacred traditions of the country.

Never, in Greece's history, had the word "national" been so much misused and abused. I wonder whether it is worth adding to this group some rightist "resistance leaders" built up by the British during the occupation, who have since actively engaged in politics and become an advance guard of reaction. They are few and their influence is negligible but they make a great deal of noise and should be mentioned here for the sake of completeness.

This, then, was the group to which a distressed people were now relying for leadership and inspiration in the hard days ahead.

I wish to make it quite clear that under the general term "Right" I have included a host of political parties professing to represent a great variety of opinions and convictions under all kinds of political banners. I felt, however, that for the purposes of this inquiry there is very little distinction to be made between these parties. Whether they call themselves royalists, populists, conservatives, republicans, progressives, liberals, social-democrats, radicals or what not, whether they claim that the return of the king is the only solution to Greece's problems or maintain that the establishment of a Republic would automatically bring to Greece all the blessings of democracy, the objective inquirer is more impressed by the characteristics they have in common than by the differences they play up so noisily before the people.

As far as the economic and social recovery of the country is concerned they are all conspicuous by their lack of any positive program and they are all in complete agreement in denying that any effort on the part of the country herself can improve the situation, in asserting that the country's economic recovery is not their concern but that of Greece's Allies alone, in supporting vested interests in their resistance to any measures aiming to impose just sacrifices on those able to bear them, finally in their tactics of whipping up nationalist feeling in the country and relying heavily on a rabid and irresponsible nationalism in order to conceal their failures in the concrete tasks facing the country.

Whatever the label under which they present themselves, they are all equally reactionary as far as economic policies are concerned. The older politicians of the Right are more parochial and ignorant, the younger ones more opportunist and unscrupulous, but they are all equally unable and unwilling to face and solve the grave problems facing the country. I wish to stress as strongly as possible that there is no relation whatsoever between these "social-democrats" and "liberals" and corresponding parties not only of the Left but even of the centre in other countries.

It is worth mentioning that measures adopted even by conservative Governments abroad for the protection of the public against exploitation in times of scarcity are considered by these "progressives" as attacks against "sacred" private enterprise and are summarily dismissed as "not suited" to the "special" Greek circumstances.



17/1/72

Such, then, is the leadership of the Right in Greece. It is the type of leadership to which the people in all other European countries are no longer prepared to entrust the responsibilities of government.

I have already shown how different developments were in Greece and how this was the result of the December communist rising.

No other class was more deeply affected in its thinking and feeling by that rising than the middle class.

The support of the middle class

I must explain here that the Greek middle class has always held a dominant position and exercised a decisive influence on the course of events in Greece.

Unlike the other Balkan countries, whose population is overwhelmingly agricultural, Greece has a large urban population, representing over 40 percent of her total population.

A considerable proportion of this urban population, probably much greater than is warranted on economic grounds, consists of lawyers, doctors, teachers, judges, civil servants, shopkeepers, traders and small rentiers. Among them were many who had emigrated to foreign countries in their youth, worked and saved hard and then returned to Greece to live in comparative comfort. The range of incomes within this class varied considerably. Nevertheless this class formed a compact social group whose members were clearly distinguishable by their strong family and social traditions, their exaggerated sense of pride in

their social status, their extreme nationalism and their very conservative outlook.

This class formed the backbone of Greek political and social life and exercised an influence out of proportion with its numbers. It dominated both the peasantry and the working-class towards which it maintained a rather exasperating attitude of social superiority. It was also its extreme conservatism, rather than any real community of interests, which allied this class to the economic oligarchy of industrialists, big merchants and financiers who dominated the economic life of the country. There can be no doubt that this alliance deprived Greece of the beneficial influence exercised in other countries in favor of social progress by an educated middle class.

In spite of all its faults, however, the middle class was a factor of stability in Greek life and helped to maintain intact the traditions on which that life had been built.

The conditions created by the war and the enemy occupation affected deeply both its outlook and position. To a considerable proportion among its members inflation and scarcity brought untold suffering and privations and a daily struggle to maintain their self-respect and the outward appearances of dignity in spite of total loss of income. At the other end, there were numerous cases of profiteers and collaborators who amassed great fortunes and lived in terror of popular revenge.

These conditions could not fail to influence the outlook and thinking of those whom they affected and considerable numbers



17/1/74

from the middle class joined the resistance movement and subscribed to its program of reforms. It is also worth mentioning that some of the best elements of the resistance movement who opposed most strongly the Communist domination of the movement came from the middle class.

It can be said that at the time of liberation the middle class as a whole had recognized the need for economic and social reforms and was ready to accept them. Even those whom the reforms were intended to hit were prepared to submit and recognized them as an inescapable evil.

This hopeful trend was completely reversed by the outbreak of the Communist rising.

It is impossible for those who have not been in Greece and have not spoken to middle-class people to realize the terror that has seized the minds of these people since the Communist rising and the extent to which that terror has paralyzed their thinking and judgment. I am not exaggerating when I say that even today, one and a half years after the fighting, the excesses of the Communists still dominate the thoughts of these people and constitute a daily topic of conversation and indignation. To be protected against a similar experience and the terrible fate which they feel awaits them if a second rising were to be successful is the only consideration and the only factor that counts in their reasoning. They will support anyone who promises to exterminate the Communists and distrust anyone who would preach conciliation and unity.

17/1/75

One might produce a formidable array of arguments demonstrating that Communism is a symptom, not a cause, that it gains ground only in a country where there is widespread misery and discontent, that the best way to fight communism is to improve economic and social conditions, curb those vested interests which are responsible for much of the misery and exploitation prevailing in the country and thus steal from communism its most effective thunder, that communism is strongest where social conditions are worse and weakest where the need for reform is recognized by all classes of the population and where the privileged make the greatest concessions, that all liberated countries have recognized that as a result of the conditions created by the war and by the enemy occupation a section of their population has embraced communism and that they all have found some means of integrating these elements into their national life, that the extermination or suppression of thousands of people, even though they may be a minority, is anyway an impossibility, that Greece in particular needs peace, unity and cooperation between all classes in order to recover. They will recognize that the arguments are impressive but will state that they prefer to take no risks and feel that the extermination of the Communists is a much safer method.

This attitude is a fact which weighs heavily in the Greek situation. It may appear hysterical to a balanced mind but one must



17/1/76

remember that after four years of anxiety and under-nourishment these people are not capable of clear and detached thinking nor of taking a longer view of things.

The result is that the danger of communism has become their only concern and that protection against that danger is the only consideration which they are prepared to take into account. This is why they solidly support the Right and are willing to put up with exploitation, financial chaos, economic stagnation and administrative inefficiency and to accept without much questioning the explanation offered by their leaders, that all these evils are due exclusively to inadequate allied assistance.

No safeguard and no sacrifice appears to them too great when compared with this danger of communism.

A class previously so jealous of the country's independence has even come to consider the presence of foreign troops as necessary to the maintenance of internal order and to regard almost as treason any reference to their eventual withdrawal.

The majority of the peasants, who represent the largest single section of the population, is similarly strongly behind the Right in its opposition to Communism.

The support  
of the  
peasants

Since the radical agricultural reform of the twenties the Greek peasant has become the owner of his land and has been free from any form of exploitation. Though poor, he was satisfied with his lot and tended to be conservative in his politics.

The peasants of Southern Greece, in particular, who were relatively prosperous, were well-known for their strong royalist feelings.

During the last two years of the occupation the EAM established its administration in numerous rural districts won from or abandoned by the Germans and the peasants experienced the rigors of Communist rule. This only increased their opposition to left-wing politics and their support of the royalist cause.

In making this statement on political opinion in rural Greece I am not ignoring the fact that large numbers of peasants in Thessaly, Epirus and Northern Greece whom fighting and reprisals have reduced to utter destitution belong to the left-wing movement\* while others, especially in the islands, have remained staunch republicans. I do believe, however, that my general impression, that the majority of the peasants had remained conservative in their politics and were strongly supporting the Right, is substantially correct.

Even among the wage-earners and salaried workers who provided the bulk of left-wing following, there were substantial numbers whose dislike of Communism was stronger than their dissatisfaction with the conditions to which they had been reduced. It is worth mentioning in this connection that the blind

The attitude  
of the work-  
ing class

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\*Additional evidence, if needed, that misery is the best ally of Communism.



17/1/78

violence, intolerance and opportunist tactics of the Greek Communists had alienated thousands of people who in other countries would have been the natural supporters of a left-wing movement. If one recalls that the vast majority of their victims were small people whose only crime was that they refused to have their opinions dictated to them by the Communists while profiteers and speculators bought off their safety with gold and were left completely unmolested, one cannot wonder why the December Communist rising produced such a violent revulsion of feeling in Greece and why the people, despairing of the new movement, turned to the old politicians for leadership.

Here, then, was a group of people whom the blunders and mistakes of their opponents, not their own merits, had brought back to power and who had neither the will nor the ability to tackle the difficult economic problems facing the country.

Economic developments in Greece since January 1945 faithfully reflect this sad state of affairs.

The Economic  
conceptions  
of the Right

After what I have said in the preceding pages I need hardly explain that although Governments and Ministers followed each other in quick succession and in a variety of combinations, they all displayed a remarkable continuity in their attitude to the country's problems and in their handling of economic and social questions. Their interpretation of the Greek situation can be summarized as follows:

12/1/79

Greece has emerged from the war completely ruined, her currency has collapsed, private wealth and savings were lost, her communications were completely destroyed, large sections of her population have become unable to support themselves, her production was a fraction of its pre-war level and there was a huge Budget deficit because no revenue could be raised by the Government in a country where, in their opinion, there was no taxable capacity among the population. There was nothing the country herself could do to improve the situation. It had to be recognized that Greece was prostrate and should become a full charge of her Allies. After the sacrifices Greece had made during the war it was the Allies' duty to restore by their own means and without any further sacrifice on the part of Greece her means of transport, bridges, port installations, etc., re-house her farmers and re-equip them with implements, machinery and livestock, supply her industries with raw materials, fuel and spare parts, and import adequate quantities of food, clothing, medical supplies and other needed consumption goods in order to ensure a reasonable standard of living to the population and enable the country to cease relying on her own meagre resources.

The help-  
lessness  
of Greece

Assistance in the form of supplies alone was, however, considered inadequate. Over and above such assistance the government needed an ample supply of cash in order to meet the large public expenditure without resorting to the printing press. I am referring here to a deeply rooted conviction held in economic

The need  
for  
foreign  
cash



17/1/80

and political Right-wing circles in Greece, namely that the only way for an impoverished country to deal with her Budget deficit without resorting to inflation is to obtain sufficient amounts of foreign exchange and utilize them in order to meet public expenditure.

I have often tried to refute this most exasperating of fallacies and to force those holding such views to explain through what mechanism did they expect that such contributions in foreign currencies would solve the Budgetary and financial problem of the country.

The explanations given revealed either a complete confusion of thought or a total ignorance of economic realities abroad and of the nature of the assistance which Greece could expect to obtain.

The simple-minded thought that the fact alone that all new issues of money would be backed by foreign currencies would be sufficient to restore confidence in the drachma.

The more sophisticated realized that so long as there were constant additions to the supply of money without a corresponding increase in the volume of goods there was bound to be an accumulation of excess purchasing power which had to be neutralized. They maintained, however, that the increase in foreign exchange holdings which would result from the granting of assistance in cash would enable the country to increase the

volume of imports and consequently the supply of goods available on the market. If one pointed out to them that there was a world shortage of supplies and that UNRRA itself had great difficulty in procuring supplies for the country, they would strongly deny it and produce evidence from traders showing that foreign exporters were eager to sell goods to Greece. If one pointed out that the goods which would absorb this excess purchasing power were to a large extent consumption goods and even luxuries demanded by those possessing the excess purchasing power while a ruined country like Greece should use the foreign assistance granted to her in order to rebuild her economy and improve the lot of her poverty-stricken population, the reply was that this was wicked socialist doctrine and that the traders knew better than bureaucrats what the country needed most and could be relied upon to obtain in foreign markets the goods required by the people. Finally they stated that even if the foreign exchange granted to Greece could not be immediately converted into imports, monetary and financial stability could be maintained in the country by making the local currency freely convertible into foreign exchange and selling foreign exchange or gold in unlimited amounts to the public. If one pointed out that this would correspond to an export of capital and would mean that the foreign assistance given to Greece would be used in order to enable individuals to acquire foreign exchange, the reply was that this was the way an economy based on private enterprise could



function and that the burden would fall on Greece's great Allies for whom the sums involved were anyway negligible. In this respect it is interesting to mention that any suggestion that the sterling itself was an inconvertible currency and could not therefore serve in a financial stabilization of that type appeared fantastic and was denounced as wicked heresy.

Almost two years after the liberation this clamor for foreign cash is more persistent than ever and constitutes the only contribution which the Right feels it can make to the solution of Greece's economic problems.

In this connection it is impossible not to regret the attitude adopted on this matter by the British authorities in Greece. Britain has given to the world a unique example of wise and at the same time bold financial management and of heavy sacrifices willingly made by all sections of the population for the maintenance of monetary and financial stability in the face of overwhelming difficulties and pressures.

The attitude of the British

The presence of large numbers of British officials in Greece, their easy access to or even virtual control of radio, newspapers and other means of influencing public opinion gave them a unique opportunity to inform the Greek people who, for over four years, had been cut off from the Allied world, on the measures taken abroad and the policies followed in other countries and expose the fallacies daily expounded by the politicians and press of the Right. Instead, however, of helping to clarify the minds of a bewildered people on the difficult problems facing

the country and making clear their own position, they preferred to keep silent and give equivocal answers to requests for financial help, thus leaving wishful thinkers to infer that the much-desired cash might be made available under certain conditions. The London Economic Agreement of January 1946 to which I shall presently refer was the culmination of this attitude of ambiguity towards the Greek economic problem adopted by the British authorities.

Coming back to the views of the Right, I should like to stress once more the fact that they considered the Greek economic situation as entirely dependent on the degree of assistance granted to the country and indignantly denied that internal measures could improve in any way the situation. They were convinced that inflation, chaos and collapse were the natural and inevitable consequences of the Allies' failure to fulfil their obligations towards Greece but hoped that the plight of the country would force the Allies to adopt a more generous attitude towards Greece. This is why they bitterly attacked anyone who maintained that independently of the need for external help there were also internal remedies for the prevailing situation and accused him of weakening the Greek case for assistance.

Refusal of  
the Right  
to take  
internal  
measures

While Governments and politicians were thus living in a world of make-believe, life was going on and economic conditions were steadily deteriorating.



17/1/84

I have shown that the assistance given to Greece by UNRRA was intended to meet only minimum urgent needs and also that it required an all-out effort in order to be utilized to the best advantage.

In the absence of such an effort it could do no more than prevent a total collapse and ensure a bare subsistence to the population.

It is therefore no wonder that in spite of the invaluable contribution made by UNRRA the country has not yet overcome the basic difficulties which confronted it at the time of liberation.

Developments since January 1945 can be summarized as follows:

The Period  
January-May  
1945

I have already referred to the virtual cancellation of the monetary circulation at the time of liberation. On November 30th, 1944 the total circulation did not exceed 2,387,700,000 drachmas which corresponded to less than 500,000,000 pre-war drachmas, i.e. 1/20 of the pre-war circulation. Thus all the inflationary pressures exerted since then on the country's economy have come from new issues of money and not from past accumulations.

The new drachma introduced in November 1944 had been pegged to the British Military Authority Notes and had been declared by law freely convertible into such notes. This was

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supposed to constitute a guarantee which would inspire confidence in the new currency in spite of the fact that the only value of these EMA notes consisted in their being accepted as a means of payment in Greece. Thus the convertibility of the new drachma into EMA notes was a meaningless expedient which failed in its purpose and which at the same time created a misleading impression of the nature and functions of this provisional currency and induced various kinds of speculation.

The rate of exchange had been fixed at the pre-war parity, a fact which required that internal prices would not exceed the pre-war level by more than 50 percent (the probable depreciation of the dollar and sterling). At the same time, however, wages and prices were fixed at levels which were four or five times higher than pre-war while free market prices were some eight times higher. The result was a gross overvaluation of the drachma in terms of foreign currencies which rendered the official rate nominal and soon created a black market for foreign exchange.

As regards the internal value of the currency, its stabilization depended on the balancing of the Budget and the imposition of price control, rationing and taxation, that is on measures which were considered by the governments in power beyond the capacity of the country to adopt.

The result was a continuous increase in monetary circulation, a large budget deficit, steady increases in prices followed by increases in wages and salaries and the consequent distrust of the currency which led to hoarding and a heavy demand for gold.



17/1/86

The following tables illustrate these developments:

## I

End of	Monetary Circulation	Government Expenditure	Government Revenue	Deficit
(million drachmas)				
November 1944	2,387	1,133	73	1,060
January 1945	5,116	2,453	63	2,390
February 1945	9,598	2,751	186	2,565
March 1945	13,486	5,804	2,240	3,564
April 1945	18,542	5,451	2,503	2,948
May 1945	22,871	5,768	3,169	2,599

## II

	<u>Gold sovereign rate</u>	<u>Geometric Index of 20 commodity prices (October 1940 = 100)</u>
November 11, 1944	2,100	431.4
December 2, 1944	3,080	663.7 (Nov. 30, 1944)
January 13, 1945	3,475	1,116.2 (Jan. 13, 1945)
February 15, 1945	4,780	825.7 (Feb. 20, 1945)
March 15, 1945	5,050	778.8 (March 20, 1945)
March 30, 1945	6,400	778.9
April 20, 1945	8,550	856.5
April 30, 1945	10,300	986.8
May 11, 1945	11,600	1,048.2
May 21, 1945	20,000	1,223.9
May 31, 1945	19,500	1,544.4

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## III

Money Wages and Salaries

Pre-war    November 1944    Feb. 1945    March-May 1945

A. Salaries (monthly)a. Civil Servants

Highest (Director-General)	9,650	8,800	same	16,300
Lowest (Junior Usher)	920	4,400	"	5,900

b. Employees of Banks and other private enterprises

Highest		8,500	"	15,000
Lowest		5,000	"	9,000

B. Wage Rates (per day)

Skilled worker A	150	325	480	No increase in official rates but substantial increases ranging up to 100% granted unofficially to many occupations.
" " B	115-125	300	384	
" " C	100	275	384	
Unskilled worker	58	200	240	

## IV

Real Wages and Salaries

Pre-war    November 1944    March 1945    May 1945

Index of money salaries	100	100-300	200-500	
Index of money wages	100	200-400	300-600	
Geometric index of 20 commodity prices	100	431.4	778.8	1223
Index of clothing prices	100		1446.3	2656.4
Index of cost of living for bare subsistence*	100		350	440

\*This was constructed by the Bank of Greece in order to reflect only minimum subsistence needs. It takes heavily into account the rent subsidy granted to civil servants, bases food requirements mainly on relief distributions and excludes renewal of clothing.



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The preceding tables reveal the steady deterioration of the Greek financial position during the period under examination, the continuous rise in prices and consequent fall in the standard of living of the working population and the pattern of a rapidly developing uncontrolled inflation.

In May 1945 real wages and salaries represented no more than 30 percent of the already low pre-war levels while to thousands of unemployed, destitute and invalids the sharp increase in prices brought intolerable privations and hardships.

Fall in real wages and salaries

The bare subsistence index quoted in table IV shows that without the rent moratorium and the food distributions of UNRRA the whole class of wage earners and salaried workers would have been unable to maintain itself alive.

The small quantities of local supplies available were sold on the free market at exorbitant prices beyond the reach of any but the small minority of well-to-do. Industrial production was at a low level due to shortages of raw materials, fuel and equipment and whatever was being produced was being immediately hoarded in anticipation of continuous price rises.

The class of traders and industrialists was taking full advantage of these conditions of scarcity and inflation and making profits which it immediately invested in gold.

According to my estimate, which I consider a rather conservative one, this class comprised some 500,000 persons with an average income of 125,000 drachmas per month. If we take into

Unequal distribution of incomes

17/1/89

account the fact that the average income of wage earners and salaried workers was below 10,000 drachmas while over 30 percent of the population were completely destitute, we find that a small group of people, representing no more than 7% of the population possessed over 50 per cent of the purchasing power available in the country. If we further take into account the fact that on an aggregate monetary income of over 30,000 million drachmas in May 1945 taxes yielded less than 2,500 millions and that even this small revenue was derived overwhelmingly from taxes on tobacco, salt, alcohol, etc., i.e. taxes on the general public, we are fully justified in stating that this small minority of people were not only exploiting to the full the favorable circumstances in which inflation and scarcity had placed them but were also making no contribution whatsoever to the desperate needs of a community in which they had come to occupy such a privileged position.

Meanwhile, UNRRA supplies were arriving in the country in increasingly large quantities and raising urgent problems of unloading, transportation, distribution and utilization.

Utilization  
of UNRRA  
supplies

Food supplies in May ensured a diet of 1978 calories per head per day in the region of the capital and rations of 500-1500 calories in the provinces, according to local deficiencies and the availability of transport. Bread, flour and pulses provided over 80 per cent of this calorie intake.



17/1/80

Distributions in the capital were made through the machinery established by the Swedish Relief Commission to which I have already referred and were on the whole satisfactory, although there was room for much improvement. Distributions in the provinces, on the other hand, were supposed to be made through local committees established in April. The organization of these committees proved, however, so grossly inadequate that practically the whole burden of distribution fell on UTRM field personnel. I am not exaggerating when I say that without the untiring efforts and selfless devotion of these people whole districts would have been deprived of relief and supplies would have failed to reach some of the neediest sections of the population.

The prices of relief foodstuffs had been fixed at levels ranging from two to seven times the pre-war prices. In view, however, of the widespread poverty prevailing in the country some of these prices were too high for the low income groups and rations were not being fully drawn or were being resold on the market for cash.

Free distributions to indigents of foodstuffs other than bread, which had been instituted by the Swedish Relief Commission during the occupation, were being continued but the system of ascertaining need was so grossly inadequate that while many legitimate cases were not receiving consideration, there were thousands of people drawing free rations without sufficient justification.

Clothing had been arriving in limited quantities since February 1945 and the problem of its distribution constituted one of the most difficult questions facing the Government and the UNRRA Mission. I have already referred to the Mission's scheme whereby this clothing was to be sold at low prices to wage earners and salaried workers under a system of registration, priorities and controlled distribution through the shops.

The Government in power, being unable or unwilling to undertake these difficult tasks, had for months been putting off any decision, with the result that supplies were accumulating in the warehouses and suffering serious deterioration at a time when the population was clamoring for clothing.

I have been referring here to new clothing. As already stated, used clothing was being distributed free to indigents through local committees. Here again the contribution of the UNRRA personnel was proving invaluable but it could not altogether prevent many abuses and inefficiencies.

The same situation existed with regard to medical supplies and equipment but UNRRA officials in many instances took the initiative and distributed supplies to hospitals and institutions without waiting for government action. The distribution of agricultural supplies, on the other hand, was proceeding satisfactorily thanks to the energy displayed by the officials of the Ministry of Agriculture and of the UNRRA Mission who were working in close cooperation. It was indeed fortunate



17/1/92

for Greece that the Services of the Ministry of Agriculture, which before the war had achieved a remarkable degree of administrative and technical efficiency, had not suffered the same deterioration as other Greek Administrative Departments. The satisfactory progress of agricultural rehabilitation made during the last two years, which is one of the few comforting features of the Greek situation, was to no small extent due to the relative efficiency with which the Agricultural Services assisted the peasants in their hard struggle to restore production on the land.

Raw materials and industrial supplies had not yet reached Greece in adequate quantities but whatever supplies had arrived had either been left in the warehouses or had been delivered at low prices to manufacturers who made large profits in selling the products at the exorbitant prices prevailing on the market. With the impending arrival of ample quantities of cotton and wool the whole problem of utilization of imported raw materials was calling for urgent action on the part of the Government.

Similar difficulties arose in connection with fuel, means of transport and so on. It was becoming increasingly clear to all except the government itself that in the absence of an adequate administrative machinery the problems raised by the utilization of relief and rehabilitation supplies would overwhelm the government and the UNRRA Mission and in the end remain unsolved.

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Nothing, however, was being done to meet the situation. Disorganized Departments headed by incompetent and unwilling officials were grappling with these problems and were daily finding new excuses for putting off any action.

State of  
Administra-  
tion

Legislation supposedly intended to ensure the reorganization of the Administration was being applied mainly in order to purge the Civil Service from left-wing elements. Officials who had compromised themselves during the occupation by collaborating with the enemy and using their authority for personal ends had come out after the suppression of the December rising as fervent royalists and ardent nationalists and by May 1945 could be found solidly entrenched in their positions and power. In many cases their close connections with vested interests was the main cause of the delays in the distribution of imported supplies which would have brought down prices and profits by reducing the existing scarcity and the dependence of the public on local supplies.

A last feature of the situation which must be mentioned here is the heavy call on Greek resources made by the requirements of the army and gendarmerie. Large Military Expenditure

Not only was the number of military personnel large but the size of the new army and gendarmerie which was being created under the auspices of the British represented a burden on the Greek economy which could not be borne without seriously hindering the country's recovery.



17/1/94

It is true that the British had undertaken to bear a large proportion of the cost of this army not only in equipment but also in food, clothing and other maintenance charges. Gradually, however, part of this cost was being shifted to the Greek budget with the result that, according to some estimates, military expenditure today represents over 40 per cent of total public expenditure.

Such then, was the economic situation in Greece in May 1945 when I was requested to join the Government and assume responsibility for economic affairs.

Period June-  
September 1945

I shall here give a short account of the measures which I tried to carry out during the period June-September 1945 during which I remained in office.

In the first place I should like to explain that the program which I proposed to the country was an emergency program intended to do no more than halt the continuing deterioration and achieve some degree of stabilization. It was not a comprehensive economic and social program embracing all aspects of the Greek problem, even less a long-term plan of reconstruction.

In entering the Government I had no illusions as to the degree of support and assistance I could expect from colleagues the majority of whom were hostile to the measures I was introducing. Nor could I have any illusions as to the backing which the political parties would give to a program which was bound to hit

the sectional interests supporting them. I knew that all I could do was to appeal to public opinion, try to carry out, probably singlehanded, certain desperately needed measures and hope for the best.

The most urgent task was to reduce the pressure of Taxation the excess purchasing power on the financial and economic situation by taxing the class in whose hands this excess purchasing power was concentrated. I have already stated that even before the war direct taxation provided a very small proportion of the State's total revenue and that the fiscal services were far from adequate. These services had been completely disorganized during the occupation and no serious effort had been made after the liberation to establish a satisfactory machinery for the collection of taxes. The result was that the war profits tax imposed early in 1945 had yielded only negligible sums and it was openly admitted that there was no serious intention to collect the tax.

Faced with this situation I reached the conclusion that any effort to mop up the excess purchasing power through this inadequate tax-collecting machinery was bound to fail and that more drastic measures were needed in order to get the quick results required by the situation. I therefore introduced a special levy on traders and industrialists determined automatically on the basis of a simple formula which obviated the need to rely on the fiscal services for individual assessment. In devising such an automatic tax I took advantage of the fact that the



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rent moratorium introduced since the occupation had been unjustifiably extended to business premises and shops. Since the rentals paid by entrepreneurs were less than twice the pre-war level while the prices of commodities had risen ten to twenty times, it was clear that such a moratorium corresponded to a subsidy of traders at the expense of owners, that is to a subsidy granted to the most privileged section of the population. A large proportion of the levy I imposed did no more than force entrepreneurs to pay the full rent for their premises and transfer the proceeds to the State, a course which the owners themselves widely approved. As regards industrial plant, the levy was calculated on its initial cost value and aimed to tax the great increase in value which had taken place as a result of inflation.

I made it quite clear from the beginning, however, that this was a tax levied on a social group as a whole and did not and could not claim to take exactly into account the relative individual capacity to pay within the group in view of the necessity to by-pass the stumbling-block of individual assessment. I explained that the choice was between this kind of tax and no tax at all, which meant runaway inflation and all the social and economic evils that accompany inflation. I called on the group to recognize its privileged position in the midst of a population experiencing unprecedented hardships and privations and to contribute willingly to the recovery of the country and accept without complaint or recrimination the inevitable inequities of a necessarily imperfect tax.

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The response was at first favorable from the group as a whole but each particular category of traders and industrialists soon began claiming special treatment and, while swearing that the tax was absolutely essential to the country's recovery and well within the means of the other categories, was determined to exert the maximum pressure in order to obtain exemption for itself. My refusal to yield to such pressure and to threats of closure of shops, etc. finally infuriated the group as a whole and led to the violent campaign against my program which in the end forced me to give up the task I had undertaken.

During the first two months of its imposition the tax yielded nearly 3,500 million drachmas and enabled the Government to meet 75% of its expenditure through ordinary revenue. It should be noted that this sum represented the yield of the tax as assessed by the taxpayers themselves since the fiscal authorities had not yet begun checking the declaration forms on the basis of which the tax was paid. It was estimated that after checking the yield would have been increased by some 15-20%.

Just before my resignation I was beginning to think of a method whereby cases of individual hardship and injustice could be more satisfactorily met. It occurred to me that if a percentage of the tax, say 10 per cent, were allotted to the associations of traders and industrialists to be refunded to those of their members who had been hard hit by the incidence of the tax, one could have retained the indispensable automatism of the



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tax and at the same time rendered it less rigid. An additional and by no means negligible advantage would have been that the energies of this class would have been diverted from obstructing the government to sharing out this fund among itself.

The second and equally urgent task was to stabilize prices and wages at a level compatible both with the volume of goods available in the country and with the need to ensure tolerable conditions of life to the working population and restore the incentive to work.

Price and  
Wage Stabil-  
ization

I have already described the conditions prevailing in May 1945.

I shall here summarize the situation with which I had to deal at the beginning of June.

Official rates of wages and salaries were on the average three to four times the pre-war level while prices on the free market ranged from 10 to 40 times the pre-war prices and the prices of relief foodstuffs had been fixed at two to seven times the pre-war prices. As compared with the situation in March the cost of living on a bare subsistence level had risen from 350 in March to 675 on June 2nd. The result was a wave of strikes and a universal demand for large increases in wages and salaries.

The task with which I was faced was therefore two-fold, first, to restore real wages and salaries to their March level

and secondly to ensure that the new level of wages and prices would be maintained stable.

I decided that this task would best be accomplished by a combination of the following methods:

- a) Granting of increases in salaries and pensions out of the additional revenue provided by the special levy
- b) Adjustment of official wage rates to already unofficially granted increases and to the increased ability of industry to pay higher money wages out of higher money profits
- c) Immediate imposition of price control on necessities and especially on perishable goods with chief reliance for enforcement on police measures and the difficulty of hoarding
- d) Gradual extension of control to other commodities as soon as such control could be expected to be reasonably effective.
- e) Reliance in the immediate months ahead on the return of confidence and the speedy distribution of relief clothing and footwear for the reduction in the prices of textiles and other manufactured goods. Such reliance arose from the realization that there was no machinery for the enforcement of effective price control on manufactured goods



and that without such machinery it would be impossible to prevent hoarding and the development of black markets.

- f) Reduction in the prices of relief foodstuffs in order to provide for all a minimum diet at very low cost.

I carried out this policy as follows:

- a) Salaries and pensions were increased by some 50-60% and at the same time part of the pre-war differentiation of salaries which had been abolished during the occupation was restored. During the occupation and ever since differentiation according to efficiency, skill and hierarchy had been replaced by the criterion of length of service alone which had completely destroyed discipline and the incentive to work both in public and private employment.

Wage rates were similarly increased by 50-60%.

It should be noted, however, that wage increases had already been unofficially granted in May and that large-scale demotions and dismissals of employees appointed or promoted during the occupation took place since June with the result that the aggregate money income of wage earners and salaried workers was probably increased by no more than 25 per cent.

- b) Official prices, lower than free market prices by 30-35% were decreed for foodstuffs and other essential commodities. Enforcement of these prices was entrusted to a special food police force which I hurriedly organized during my first week of office. This police force at first worked well but the temptations soon proved too great and the habits of occupation too strong for it, with the result that it gradually deteriorated.
- c) The announcement made by UIRRA of substantial imports of clothing scheduled for the next few months together with a return of confidence and the abstention of buyers following my appeal to the public to refrain from unnecessary purchases produced a very sharp reduction in the prices of clothing which fell by more than 50 per cent.
- d) The prices of relief foodstuffs other than bread were reduced by 40-50%. The price of bread, on the other hand, which did not cover even the local expenses of handling and baking, was increased by some 20%.

The net result of these measures was to restore real wages and salaries to their March level with possibly a slight improvement. The following table illustrates the changes in the cost of living and of clothing during the period under consideration.



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Cost of living Index  
(Bare Subsistence level)

		<u>Special Index of clothing prices</u>
October 1940	100	100
March 1945 (Average)	350	-
April " "	405	-
May 1, 1945	436	2275
" 17, "	516	3680
" 24, "	640	4446
" 31, "	602	4030
June 2, "	675	-
" 7, "	624	2912
" 15, "	513	2450
" 19, "	490	2535
" 21, "	480	2355
" 23, "	475	2365
July 5, "	486	2200
" 12, "	488	2220
" 20, "	492	2300
" 26, "	496	2350
August 2, 1945	559	2430
" 9, "	560	2496
" 16, "	570	2475
" 23, "	575	2850
" 30, "	585	2850

17/11/03

That my major aim to reduce the maldistribution of incomes in the country and prevent the accumulation of purchasing power in the hands of traders and industrialists was to a considerable extent realized is demonstrated by the movement of the sovereign rate on the Athens free market. This rate, as is well known, has become the most accurate index of the monetary and financial situation of the country. The following table shows that the upward movement of the sovereign rate was successfully halted in June and was resumed only in August when the opposition of traders and industrialists had begun to interfere seriously with the carrying out of my program:

Sovereign rate on Athens free market

March 31, 1945	5,400	July 10, 1945	11,000
April 10, "	6,800	July 20, 1945	14,000
" 20, "	8,550	July 31, 1945	15,000
" 30, "	10,300	August 10, "	17,000
May 11, "	11,600	August 20, "	17,000
" 21, "	20,000	August 31, "	21,000
" 31, "	19,500		
June 11, "	12,500		
" 20, "	13,000		
" 30, "	11,000		

I have been criticized by the U.N.R.R.A. Mission for the reductions in the prices of relief foodstuffs on the ground a) that this



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represented a loss of revenue to the State and b) that it meant that imported supplies were sold below their world price, a policy which delayed the reestablishment of normal conditions in the country and might have led to a serious disturbance of the country's financial structure after the termination of UNRRA assistance.

I was strongly convinced at that time and I am still convinced that the advantages from this reduction in prices far outweighed the disadvantages pointed out by UNRRA.

The loss in revenue represented less than 200 million drachmas per month i.e. less than 1/30 of total monthly revenue and enabled us to ensure a) a remarkable stability of wages, salaries and pensions at a time when exceptionally high profits would normally have induced continuous demands for wage increases and b) a minimum diet to all sections of the population, however small their incomes.

Wealthy countries with high wages, full employment and a well-organized economy like the United States and Great Britain discovered during the war that subsidies to consumption were one of the most effective means for ensuring internal stability and facing demands for wage increases.

The policy of subsidies to consumption as a means of checking inflation was at first strongly criticized as self-contradictory since it increased the available purchasing power

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instead of reducing it. It was, however, gradually realized that the loss in government revenue was more than offset by the advantages to the price structure derived from the stability of the wage level.

The effectiveness of this technique lies in the fact that real wages are expressed in terms of a cost of living index which usually measures the consumption of a working-class family and therefore gives great weight to necessities such as basic foodstuffs, rent, fuel, etc. and disregards the prices of non-essentials.

When therefore by means of subsidies a government is able to keep the cost of living index stable it can ignore considerable rises in prices which may have taken place in other sectors of the price level. This is exactly what happened in Great Britain. While prices of non-essentials were allowed to rise by as much as 100-400% it became possible, mainly through subsidies, to ensure that the cost of living did not rise by more than 30 per cent. In Greece this technique had the additional advantage that it demonstrated to the people the government's desire to be of as great assistance to the poorer sections of the population as possible. In a country where psychological factors play such an important part this advantage was not to be disregarded. I am convinced that it did more than any other measure to ensure a remarkable labor tranquility for over three months.



I should also like to explain that in deciding these price reductions I took into consideration the fact that the receipts depended to a far greater extent on the prevailing rate of indigency than on the level of prices. Thus while at May prices receipts from the sale of foodstuffs should have been about 2000 million drachmas, in fact they were only 600 millions i.e. hardly 30 per cent of this sum. This was due to the high rates of indigency established in the country which varied from 20 per cent in the capital to 90 per cent in Macedonia.

It was obvious that the decrease in prices should have reduced correspondingly the rate of indigency and thus offset to a considerable extent the loss of revenue from that cause. The reason why this did not take place is that in the short time in which I remained in office it proved impossible to disentangle the intricate problem of relief distributions in the provinces and introduce a more efficient system.

We were, however, well advanced with our plans which would soon have solved this difficult problem and increased the receipts from the sale of relief foodstuffs. In particular, it was intended to drastically reduce free distributions by establishing maximum rates of indigency in each region. The average rate for the whole of Greece should not have exceeded 20 per cent.

As regards the second criticism of UNRRA, it ignored the fact that these price reductions were an emergency measure

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intended to meet an emergency situation and help to stabilize conditions until the economic recovery of the country had got under way. It should be remembered that at that time the country was relying for practically the whole of its transport requirements on the 1,500 trucks imported by UREMA and on some 2,000 decrepit local trucks operated by private owners at exorbitant charges. The result was that the cost of transportation was almost prohibitive (it was estimated to be 25 times higher than pre-war as compared with a wage level 4 times higher) and represented a large proportion of the price of goods on the market. The importation of some 4,000 more trucks, which had been promised and which did take place in September, and a more efficient operation of these trucks would have substantially reduced the cost of transport while the gradual restoration of the country's production and the return of confidence would have increased the flow of supplies. I had made it quite clear from the beginning that I was relying on these developments for a gradual fall in the price of local products.

I had also announced my intention to abolish all taxes and dues levied on commodities transported within the country. This required a thorough study of the numerous taxes and dues in existence and of the hundreds of special funds perceiving them. The work had been completed by the middle of August and the law abolishing the taxes was to be submitted for approval to the council of Ministers at the beginning of September. The



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abolition of these taxes was a long-overdue reform of major significance to the country's economy. It would have reduced the cost of local products reaching the urban areas by some 10-15%, it would have promoted the movement of goods within the country and the decentralization of industry, would have reduced the hold of merchants and middlemen on both the consumer and the producer by eliminating the need to possess funds for the payment of the taxes and finally would have put an end to the numerous abuses inherent in the collection of these taxes.

The law which I had prepared envisaged the abolition of all such taxes and their replacement by a tax of 4-5 drachmas per kilogram on all imported wheat and an additional tax on imported fuel and on cigarettes. The proceeds were to be allotted to a special fund administered by representatives of the agencies and bodies which had previously preceived the taxes and dues. The main task of this fund would have been to distribute the sums collected among those agencies and bodies, under the supervision of the government. An additional advantage of this system would have been the mutual control of the interested parties which would have replaced the existing scramble for continuous increases at the expense of the public. This reform would have enabled us to reduce prices of local products by some 10-15%.

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As regards manufactured goods and in particular textiles and footwear, the distribution of UNRRA imports and the processing UNRRA raw materials should have ensured a very considerable increase in supplies and consequent fall in prices.

If things had gone in accordance with my expectations a fall in the prices of local foodstuffs of at least 25 per cent would have taken place by the end of 1945 and an even more considerable fall in the prices of manufactured goods, probably as great as 50 per cent. This would have created a margin which would have enabled us to increase the prices of relief foodstuffs by as much as 100 per cent without reducing real wages and salaries.

If my program had been carried out in full the situation in March 1946 would probably have been as follows:

- a) The general level of prices would have been around 7-8 times the pre-war level
- b) Money wages would have been about 4-5 times higher than pre-war. The difference between this increase and the increase in exchange rates (3.3 times) would have represented the increase in world prices
- c) The difference between the increase in the price level and the increase in wages would have measured the fall in the productive capacity of



the Greek economy. The restoration of real wages to their prewar level would have been possible only after several years of extensive outside assistance and a sustained effort of economic reconstruction.

- d) The fall in prices would have eliminated the high profits derived by industry and trade and would thus have automatically reduced the prevailing maldistribution of incomes. This would have coincided with the termination of the liability for the payment of the special tax (March 1946) and would have enabled the government to rely on more orthodox methods of finance i.e. indirect taxation, income tax, etc.

My conclusion is that the technique of low prices for relief foodstuffs was an integral part of my program of economic stabilization and, within the framework of that program, would have ensured a smooth transition from an economy of scarcity and maldistribution of incomes to more normal economic conditions.

Subsequent developments have demonstrated the correctness of my view. The sharp increases in the prices of relief foodstuffs effected since November 1945, which both UHFM and the successive Greek Governments backed by the British advisers hoped would bring in large sums for the State, have completely

failed to improve in any way the financial situation of the country. Today, when relief foodstuffs are sold at prices not much below free market prices, the Budget deficit is greater than ever and the financial situation more precarious than at any other time.

I was therefore right in my contention that, however great the patience and forbearance of the Greek people, it was impossible to stabilize the Greek economy by imposing sacrifices on the poor alone and leaving the rich untaxed.

The third urgent task facing me was to organize the effective utilization of UNRRA supplies. It was a task of forbidding difficulties which absorbed a large proportion of my time and energy and required on the one hand the setting up of an entirely new administrative machinery in a matter of weeks and on the other hand daily consultations with the UNRRA Mission and detailed discussion of every action and measure which I proposed to take.

Utilization  
of UNRRA  
supplies

Thanks to the ability and drive of a few persons whose collaboration I was fortunate to secure the UNRRA scheme of clothing distribution was carried out with remarkable efficiency in less than two months in spite of the systematic obstruction of traders.

A new service of nearly 1,000 persons was hurriedly set up which carried out the registration of over 400,000 persons in the region of the capital, issued ration cards, fixed the



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rations and organized the distribution through the shops, all this under conditions of incredible difficulties and a daily struggle for premises, office furniture, means of transport and so on. The plan, provided for the extension of distribution to the provinces and to other categories of the population and a special plan of clothing distribution to the peasants was agreed with UMRMA and put into operation.

The utilization of raw materials and especially textiles raised similar difficulties. My plan envisaged the production of utility textiles needed by the mass of the population and their rationed distribution at cost prices. It required considerable preliminary work to establish the cost of production, the margins of profit, the allowance for waste, the methods of delivery of the raw material, supervision and financing of production by the Government, delivery of the goods, etc. This work was accomplished by joint committees which established the cost of production at 7-8 times the pre-war cost and recommended an allowance of 12 per cent for waste, an 8 per cent profit for industrialists, the utilization, during at least six months, of the full productive capacity of the industry exclusively for the production of utility goods and the financing of all production operations by the government.

These were generous terms for which industrialists in any other country would have been grateful. The Greek industrialists, however, accustomed to profits exceeding 100% and to complete freedom

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from any control, objected with violence to all these recommendations and were able, through incredible intrigues and machinations, to delay the carrying out of the plan while at the same time denouncing me of keeping the "national" industry idle through my refusal to deliver to them unconditionally the raw materials imported by UERRA.

Similar problems arose in the case of other industries such as the soap and fertilizer industry for which raw materials were beginning to be imported by UERRA but the organization of controls was being held up by innumerable difficulties, lack of personnel and by my being overburdened with other tasks.

The unloading and warehousing of supplies in the destroyed port of Piraeus and their transport and distribution in the provinces were similarly requiring constant attention and were the cause of daily worries.

As regards the reorganization of the Administration which was an essential condition for the recovery of the country, I soon discovered that it was not simply a question of legislation and good intentions on my part but also of sincere collaboration of all Ministers and heads of departments, a collaboration which unfortunately was not forthcoming. When I returned to Greece in May 1945 I found that the Ministry of Finance had already drafted a law providing for cancellation of all promotions made during the occupation and an examination of records by legally constituted committees, dismissal of all employees appointed during

Reorganization  
of Administration



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the occupation and reappointment of only those needed to fill real vacancies and possessing the necessary qualifications. The passing of this law had been repeatedly postponed by the preceding governments who feared the opposition of the Civil Servants. The law was far from perfect but it did deal adequately with the worst abuses of the occupation, especially with regard to promotions which had been so recklessly granted that the largest proportion of the civil servants were now to be found in the upper brackets of the hierarchy. I therefore did not hesitate to have it enforced and hoped that it would contribute to the improvement of the Administration. Unfortunately, however, in most Ministries it was carried out in a spirit of favoritism and partisanship and resulted in neither the removal of unsuitable officials nor in the substantial economies which I had expected.

Meanwhile I was gradually beginning to realize that the tasks I had undertaken, even with my limited program, were so vast that they exceeded the ability and endurance of a single individual assisted only by a small number of collaborators.

Organized  
opposition  
to new  
measures

I was fully conscious from the beginning that the success of my program depended on the discipline, cooperation and compliance of all sections of the population. I had never envisaged a situation in which I would have to carry out this program in the face of violent opposition by a powerful section

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of the population. From the beginning I had relied on the pressure of public opinion to make my measures acceptable rather than on real means of enforcement and coercion which I hardly possessed. The vested interests which I was trying to bring under control soon realized this and mobilized their efforts to weaken the pressure of public opinion in favor of my program. In order to do this they launched a violent campaign against my person and at the same time organized a systematic blockade of the Athens market by withholding supplies or preventing them from reaching the market. Within a few weeks olive oil, soap, cheese, charcoal had completely disappeared and in the end even perishables such as fruits, vegetables and fish became unobtainable. There were numerous instances of supplies being bought up in the provinces and dumped there. At the same time black markets were rapidly developing.

I had always anticipated some such form of opposition and had felt that without a minimum stock of vital supplies in the hands of the government, which would have enabled us to ensure the provisioning of the population in essential commodities while the withholding of supplies was going on, the whole effort to control the situation might fail.

The blockade  
of the Athens  
Market

UNRRA foodstuffs gave us complete independence from the market in the case of bread and wheat products and some latitude with regard to other commodities.



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Similarly fruits and vegetables, which could not be indefinitely withheld, could be relied upon to supplement the diet of the population, especially in the summer months. Olive oil, however, was the crucial product since it was the main source of fat for the population, it could easily be hoarded and it was a commodity of which a population, having for over four years suffered from an appalling deficiency in fats, could not be deprived for long without falling into a panic. This is why the very week I assumed office I took up the issue of olive oil and called on UNRRA and the British authorities to collaborate in its solution.

The issue  
of olive  
oil

The main centres of olive oil production in Greece are the islands and the Peloponese. Among the islands Crete is the most important centre, producing some 20-30% of the total crop. I thought it imperative to organize the collection of olive oil and thus ensure to the government an adequate stock which would enable it to issue regular rations to the population and secure its independence from the free market or, if the amounts collected were not sufficient for such regular distribution, to keep them for emergencies and use them in order to counteract any attempt to blockade the market.

Crete presented the most favorable conditions for such a collection but it had just been freed from the Germans and I knew that the authority of the Greek government there was nominal, the real authority resting with the British Military Command.

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At the same time I knew that such a collection, in order to be successful, had to be on a voluntary basis since it was physically impossible, even if desirable, to force hundreds of small producers scattered in tiny and remote villages to deliver their stocks under terms which they considered unprofitable. Even the Germans, great experts in ruthlessness, had been unable to get substantial results through the use of force. I therefore proposed to UNRRA a barter scheme whereby UTM textiles and wheat could be exchanged against olive oil under fair and equitable terms. After some initial objections UTM agreed and a joint British-UNRRA-Greek Mission was sent to Crete. It soon reported with great optimism on its efforts and for some time it appeared that success was certain. I placed at the disposal of the Mission all the facilities available to the government in addition to ample financial means and dealt personally with their continuous requests and appeals for help. In the end, however, the Mission failed completely due to the organized opposition of local merchants and dealers and to its own mistakes.

When I heard of this failure I realized that the situation in Athens would soon become uncontrollable unless some alternative source of supplies could be found. I therefore appealed to the British authorities to lend us some 2,000-3,000 tons of olive oil from Italy or the Middle East and, if possible, an equal amount of soap and cheese which would have enabled us



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to meet the essential needs of the population until the blockade of the market was given up or was dealt with by the stronger police measures I was trying to organize. I made it quite clear to the British authorities that without such help I would have to give up the job I had undertaken. At the same time I appealed to the population to show patience and discipline and accept the hardships involved with the realization that the defeat of controls would bring upon the country all the evils and inequities of uncontrolled inflation. Unfortunately, due to delays in arrivals, August food distributions had been the smallest ever made providing less than 1500 calories per head per day and increasing the dependence of the population on local supplies just at the time when the campaign against controls and taxation was in full swing.

My request was received by the British authorities without sympathy and their reaction was cool and non-committal. I then realized that this last chance to keep the situation under control had been lost and submitted my resignation. I wish to take this opportunity to express here my deep appreciation for the assistance and support which the Chief of the UNRRA Mission, Mr. Buell Mahen, gave me at all times in the difficult task I had undertaken. Although we disagreed on several occasions, especially at the beginning when he was somewhat distrustful of my reforms and high-handed methods, we gradually established a close and sincere collaboration and a daily contact from which I derived the greatest benefit. I shall always remember with

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gratitude the untiring efforts and real sympathy which he and his staff devoted to the relief of suffering in Greece and to the rehabilitation of the Greek economy.

I regret not to be able to make the same statement about British officials. After some initial display of interest, they soon decided that my program was too much disliked by the conservative elements of the country and raised too many uncomfortable issues to deserve their support and they showed an uncooperative attitude on practically all occasions on which I addressed myself to them. In the end they reached the conclusion that the whole thing was not worth while and became definitely hostile.

The week following my resignation price controls were removed and supplies reappeared on the market at prices 50-100% higher than the prices I had established in June. With the removal of price control the special levy lost its significance since it was now being passed on to the consumer and the accumulation of purchasing power in the hands of traders and industrialists was once again resumed. Real wages and salaries fell sharply, strikes broke out and demands for increases could not be refused for long. The Budget deficit increased and the sovereign rate resumed its upward movement. Within two months of the abandonment of controls the country again found itself in the throes of runaway inflation.

Period  
September 1945  
March 1946



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The following table illustrates developments during the period September - December 1945.

End of	Note Circulation	Government Expenditure	Government Revenue	Deficit	Percent of expenditure covered by Revenue
		(Billion drachmas)			
May	22,871	5,417	2,801	2,616	52%
June	28,969	6,901	3,259	3,594	47%
July	33,748	7,962	6,050	1,912	75%
August	40,555	9,348	5,429	3,919	60%
September	48,708	10,900	5,793	5,107	53%
October	59,621	13,456	7,167	6,291	52%
November	76,937	18,941	10,511	8,430	55%
December	102,828	40,141	15,254	24,887	38%

End of	Sovereign Rate	Commodity Price Index	1940 = 100 Cost of Living Index**	Wage Rate Index***
May	19,500	1544.4	637	384
June	13,000	1002.7	623	588
July	15,000	1035.2	574	589
August	21,000	1113.6*	783	591
September	35,000	1953.4	846	708
October	41,000	2981.8	1401	959
November	72,000	4858.4	2273	1608
December	102,000	16603.0	5222	4057

\*In August black markets had developed. The Index based upon black market prices was 1724.3

\*\*This index is a development of the provisional cost-of-living index constructed by the Bank of Greece in May 1945 which I have quoted in the preceding section. It was developed by UNRRA Mission and is on a more generous basis than the preceding one (2550 calories instead of 2300 and more clothing) but still takes account of minimum subsistence needs only.

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This index was constructed by the UNRRA Mission. In my view it gives too optimistic a picture of the level of wages.

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The preceding data show that by December 1945 the situation had got completely out of hand. Meanwhile the processing and distribution systems which we had developed after so much labor in collaboration with UNRRA were gradually being abandoned and UNRRA goods began accumulating again in the warehouses.

The Right was now clamoring that the shortage of goods was the sole factor responsible for this situation and that the only solution was to stimulate private imports by granting ample foreign exchange to merchants and traders. They maintained that private commerce could obtain abroad the goods needed by the country and that moreover the sale of foreign exchange to the traders would absorb the excess purchasing power and thus halt the inflation.

The granting of foreign exchange to private importers

Ever since my return to Greece in January 1945 I had insisted that, in view of the world shortage and control of supplies and the difficulties which UNRRA itself was finding in procuring supplies for Greece, reliance on private trade for the provisioning of the country was premature. I also felt that while the country was receiving UNRRA's financial assistance and claimed total inability to pay for its imports it could not at the same time allow the squandering of its foreign exchange resources for the importation of non-essentials or of goods obtained at exorbitant prices and intended for the Athens free market, which was all private trade could hope to do at that time



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for the country. Finally I felt that the strictest economy in the use of the limited foreign exchange resources of the country was a matter of elementary prudence and foresight in view of the extremely precarious position in which Greece was bound to find herself after the termination of UNRRA assistance.

This is why I had from the beginning strongly opposed the granting of any substantial amounts of foreign exchange to private trade. This policy had been bitterly attacked by the Right-wing press and spokesmen who denounced it as narrow and mean and clamored that it was holding up the country's recovery. It took the Right less than a month to find out that the granting of foreign exchange to traders could not solve the country's economic problem.

Soon after the policy of liberal allocation of foreign exchange to traders was announced in November it became obvious that the traders were by no means keen to buy the large quantities of foreign exchange that had been anticipated. They now maintained that they did not possess the necessary funds and asked for drachma credits in order to purchase foreign exchange from the Bank of Greece, a by no means unprofitable proposition in a country whose currency was daily depreciating. At the same time those who did obtain foreign exchange were soon discovering that goods were not obtainable abroad and were loudly voicing their disappointment and anger against the controls over exports exercised by the supplying countries.

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By December 1945 the hope that private imports would solve the Greek economic problem had been given up. The clamor for foreign cash, that last refuge of the Right, was now resumed with more persistence and noise than ever.

The argument now ran as follows: When your friend is in financial difficulties you help him with money. Greece is in the same position towards her Allies: she cannot make ends meet and needs their help. Moreover she has a moral claim to such help after the sacrifices she made during the war. It is no good pointing to UNRRA assistance and to the world shortage of goods. Greece needs money and asks for money and her Allies, who are rich and powerful, can give her that money.

One of the transient Prime Ministers, reporting on his talks with representatives of the British Government, made the following comment: I asked them for help and they offered me rails and locomotives.

By that time, a bewildered people had been convinced by its leaders that without British money its fate was doomed and a state of anxious expectation was prevailing in the country.

The confusion became worse when a new government, representing the parties of the so-called centre, was hurriedly formed during the last week of November at the express desire of the Under-Secretary of the British Foreign Office who was then in Athens for political consultations.

The general impression was then created that Britain was about to grant the long-awaited financial help and wished to



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give it to a government in which she had confidence. The members of the new government did nothing to dispel this impression which they thought strengthened their position. The British authorities themselves, instead of clarifying the situation, preferred to issue ambiguous statements from time to time in which they stressed Britain's desire to be of the utmost help to Greece.

The result was that after a few weeks of hopeful expectations, during which the sovereign rate dropped considerably, a violent reaction set in and the country was faced with an imminent threat of total financial collapse. The flight from the currency assumed the proportions of a panic and the sovereign rate reached unprecedented heights. Alarmed with the situation, the Vice-President of the Cabinet and two other Ministers flew to London in order to press for help.

The request was for a grant or credit in sterling in order to enable the government to make the drachma freely convertible into sterling, on the theory that this would revive confidence in the currency and halt its depreciation.

The London  
Economic  
Agreement

After arduous and protracted negotiations, in the course of which it was pointed out to the Greek Ministers that the Greek financial situation required primarily internal measures in order to be stabilized, the British government, fearing a total collapse in Greece at a time when Russia's attacks against British policy in Greece were being discussed at the Security Council of UNO, decided to give in and become a

partner in the effort to win the confidence of vested interests which the Greek Government believed was all that was needed to retrieve the situation.

This background of the Economic Agreement which was concluded in London in January 1946 between the British and Greek Governments explains how such a fantastic document ever came to be signed by the government of a Great Power proclaiming its desire to help a small and prostrate country.

The main provisions of the Agreement were as follows:

- 1) Britain waived her claim for repayment of the £45 million credit granted to Greece during the war.
- 2) An additional credit of £10 million free of interest and repayable in 10 years was granted by Britain for the purpose of stabilizing the Greek currency. This credit, together with £15 million from Greek reserves, was to be used in order to ensure the convertibility of the drachma into sterling. It was informally agreed that amounts up to £100 per month would be granted to any individual desiring to convert his drachma holdings into sterling.
- 3) Britain undertook to make available for purchase by the Greek Government goods to the value of £500,000 consisting mainly of battle-dresses,



small agricultural implements and so on. Britain was also prepared to sell to the Greek Government bridging and other construction material out of military surpluses.

- 4) British experts would be attached to the Greek Ministries and advise the Ministers on matters concerning their departments. This arrangement would be retained for 18 months.
- 5) A Currency Board consisting of one Greek member and two foreign members would control all issues of new currency. A unanimous decision of the Board would be required for the issue of new currency. Greece was undertaking to enact legislation to that effect. This arrangement was similarly to be retained for 18 months.
- 6) Reference in general terms was made to the need to balance government expenditure and revenue and stabilize wages and salaries. There were also suggestions that assistance to indigents should be tightened up and the prices of relief foodstuffs be controlled.

It was clear to any one familiar with the Greek situation and the needs of the Greek economy that no contribution whatsoever could be expected from provisions of such a nature.

The significance of the cancellation of the Greek war debt was merely symbolic since it had never been seriously

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envisaged, even at the time the credits were granted, that Greece would be called upon to repay this £45 million credit which represented the main contribution Britain made to the Greek war effort. The difficulties with which Greece was faced at the time the Agreement was signed had nothing to do with this war-time debt and the British gesture appeared to all sections of the Greek population as rather empty.

A considerable proportion of the £45 millions originally granted had already been spent and the balance was held by the Bank of Greece in London and represented the bulk of the country's foreign exchange assets.

The immediate usefulness of these balances was, however, small, since they could be converted neither into British goods whose exportation was being strictly controlled nor into dollars or other hard currencies for the purchase of goods available elsewhere. Moreover, this unfortunate state of affairs applied also to the sterling representing the expenditure of British forces in Greece and the value of Greek exports to Britain, that is to the equivalent of goods and services obtained in Greece.

While recognizing the difficulties which Britain herself was facing at that time, it is impossible not to feel that she could have done more for a country for which she had assumed so extensive responsibility than supply £500,000 worth of dyed battle-dresses and similar goods.



Thus the material assistance which Britain was granting to Greece could not be expected to make any real contribution to the country's urgent need for essential commodities.

Nor was this the object of the Agreement. Its central feature was the £10 million credit intended to stabilize the Greek currency.

I cannot help feeling that even if monetary stability could have been achieved through such a credit it was depressing to see a progressive government like the British accept the conception that monetary stability in Greece depended on the provision of ample facilities for the safe investment of the high profits realized at the expense of the public by those exploiting the conditions of scarcity prevailing in the country. Even more depressing was the thought that Greece should be borrowing money and burdening the future in order to pay this ransom to her profiteers.

There was, however, very little likelihood that the Greek currency could in fact be stabilized on such a basis. Sterling was itself an inconvertible and strictly controlled currency which offered few attractions to profiteers. It could be converted neither into imports nor into other currencies. It could not therefore supplant gold as the most desired object for the investment of profits. Nor was it of any concern to the profiteers that their demand for gold was driving the sovereign rate, and with it prices, skyhigh. They always made provision for the continuous depreciation of the currency in fixing

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their prices and suffered no losses on that count. As a matter of fact, this continuous depreciation of the currency was an additional source of profit for them since many items of cost, and especially labor, were always lagging behind the rise in prices, thus increasing considerably the margin between cost and selling price.

Anyone acquainted with conditions in Greece might have told the British that the convertibility of the drachma into sterling as a means of ensuring monetary stability could not do the trick. As we shall presently see, even the Greek Ministers, who so eagerly sought such an arrangement, knew in their heart that only solid gold would placate the profiteers and, before returning to Greece, were careful to make sure that an adequate supply of sovereigns would be in hand in case sterling were rejected.

As regards the remaining provisions of the Agreement, I should like to make the following short comments:

The arrangement concerning British experts was based on a misconception, which reflected a strongly-held view in British government circles, that Greece suffered from lack of expert knowledge and that the Greek economic situation could be improved by providing foreign expert advice. I have tried to show here that the Greek financial problem was primarily a problem of maldistribution of incomes arising from the refusal of the governments in power to impose on a powerful minority the restrictions and sacrifices required by the situation. The absurd



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economic and financial doctrines of the Right and its refusal to understand economic realities were merely a convenient form which enabled it to conceal its lack of social discipline and solidarity. So long as the will to carry out the measures called for by the situation was not there, expert advice could do little to secure the application of these measures. I have always felt that by laying so much emphasis on expert knowledge and so little on the need for a drastic and progressive national policy the British authorities were confusing the issue and sidetracking the Greek economic problem. Nor is Greece as short of talent and ability as the British make out. Before the war she was able to manage her affairs more competently than any other Balkan country and deal effectively with difficult economic and social problems.

I also know from experience how limited is the contribution which foreign experts can make to complex domestic issues, which require an intimate knowledge of the local background, personalities, popular psychology, traditions and so on. This is why I never expected that the British experts appointed to the Greek Ministries under the Agreement would be able to influence in any way whatever the course of events in Greece or the policy of the Greek Governments, so long as the need for the measures required was not recognized by those in power. I am not therefore surprised to see what little difference the appointment of these experts has made to the Greek economic situation and I cannot help feeling that only spectacular results would have justified

an arrangement so contemptuous of elementary national dignity and pride.

Similar considerations apply to the Currency Board established under the Agreement. It was thought possible to control inflation in Greece by controlling, through foreign experts, the issue of new money. The issue of new money, however, is only the last link in the chain of events that lead to inflation. The checking of inflation requires control of all public expenditure, power to raise revenue, control of credit and so on. Foreign experts could do nothing effective in this field unless they established their own economic administration in Greece and subjected the Greek economy to their full control.

The performance of the Board since its establishment has amply demonstrated the futility of such half-way arrangements whose only effect is to weaken the sense of responsibility of those in power.

Finally, the reference in the Agreement to "Price control of relief foodstuffs" was completely meaningless since relief foodstuffs had always been distributed by the government at officially fixed prices and no question of "controlling" these prices had ever arisen. Control was desperately needed in Greece over the prices of local supplies in order to prevent traders and industrialists from exploiting the public and accumulating large profits. The Agreement, however, is based on an entirely different conception of how to stabilize the financial



situation in Greece. Its aim is to provide the means for the safe investment of the large profits made by the traders and industrialists, not to reduce these profits. The reference to price control in the Agreement was therefore not only meaningless but also misleading.

Equipped with this Agreement and with 500,000 sovereigns, which they took the precaution to obtain in London against Greek gold, the Greek Ministers returned to Athens and awaited the reaction of the public.

The application of the Agreement

The general feeling was one of disappointment. Comments in the Right-wing press ranged from the complaint that the credit obtained from Britain was too small to the belated realization that sterling was of little use for the purpose for which it had been granted. Comment in the Left-wing press was hostile and sarcastic and pointed to the failure to free Greek sterling balances and especially the sterling arising from British expenditure in Greece. These criticisms were summed up in a widely-current phrase: "Greece is granting credits to Britain instead of Britain to Greece".

It is hardly necessary to say that government newspapers and spokesmen hailed the Agreement as a major triumph and as laying the foundations for the country's recovery.

The Government now proceeded to carry out the Agreement as best it could. It fixed the new rate of exchange at 20,000

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drachmas to the £ and 5,000 drachmas to the £, i.e. at ten times the parity established in June 1945, and decreed wage and salary increases of the same order, i.e. ten times those established in June 1945. Since, however, prices had meanwhile risen by more than ten times, real wages and salaries were below those of June and a storm of protest came from workers and employees who had been promised for over two months that the outcome of the London negotiations would bring with it a vast improvement in their financial position. The widely quoted estimate that real wages were only 54% of those obtaining in June is, I think, an exaggeration but there can be no doubt that real wages and salaries were well below those established in June, probably by some 30%.

The crucial issue, however, on which the whole fate of the Agreement depended, was the reaction of traders and industrialists to the offer made to them through the Agreement to invest their profits in sterling. As was to be expected, this offer they rejected without hesitation and there was no demand for sterling.

Two weeks after the announcement of the Agreement the sovereign rate was again moving upwards and profits were again being hastily invested in gold.

The government now resorted to the last expedient left and began selling sovereigns on the market on a massive scale. The London Agreement had failed before it had even had the chance of being applied.

The sale of gold and foreign exchange

The dream of all Finance Ministers since the liberation, to stabilise the situation by selling gold on the market,



was now being realized and sovereigns flowed daily from the Bank of Greece into the pockets of the profiteers.

At the same time the government announced the abolition of all import licenses and the unconditional granting of foreign exchange to importers. One could now import anything from anywhere at any price. One did not even have to surrender funds in order to obtain this foreign exchange, which for practical purposes meant dollars: it could be obtained on credit up to 60 per cent of the sum applied for. The heaven of private importers was being realized in one of the poorest and most ruined countries in the world.

Fortunately the world shortage of goods has prevented the total squandering of the country's foreign exchange resources which under normal conditions would have accompanied such an irresponsible import policy. I am convinced that in spite of the large amounts of foreign exchange granted to importers during recent months the sums actually spent were not large because of the difficulties with which importers have met on foreign markets and of the controls exercised over exports by foreign countries.

A government of the so-called centre was thus consolidating in Greece a regime based on the poverty of the masses and the impunity of profiteers. Widespread destitution, starvation wages, high prices for relief supplies on the one hand; complete freedom of a small minority to exploit the public and

The picture  
of the Greek  
economy

amass large profits on the other hand: administrative incompetence and corruption, economic stagnation and slow pace of reconstruction; an illusory financial stability achieved by turning over to the profiteers the gold and foreign exchange reserves of the country, the only asset left to her with which to face the difficulties ahead: such were the results of one and a half years of Right-wing rule in Greece.

It was not surprising that the Left recovered so easily from the serious setback it suffered as a result of the December rising.

The political situation and the recent elections

Although still a minority, left-wing following is today again a considerable factor in Greek political life. Unfortunately, in the tensions and passions of post-December Greece, the more moderate elements have been eclipsed and the left-wing movement is today almost completely under Communist leadership.

The people are faced with a tragic dilemma: they are asked to choose between reaction, exploitation and irresponsible nationalism on the one hand and violence, intolerance and danger of Slav domination on the other hand.

Torn between these two extremes, alarmed and bewildered by international frictions and conflicts which affect so closely their own security and independence, lacking the peace of mind and clarity of judgment needed to throw up a more moderate leadership,



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they are forced to surrender their fate to those who live on hatred and thrive on disunity.

The recent elections have shown that the Greek people are still determined to reject Communism and keep their country outside the Slav bloc even at the price of continued hardships and exploitation which their support of the Right necessarily entails.

As was to be expected, these elections have confirmed in power the most extreme and reactionary elements of the Right and have left the Greek problem fundamentally unsolved. They were undoubtedly fair as far as they went but, in my view, they were not fair to the Greek people, who long for quiet and for a more worthwhile existence, because they have not extricated the country from the impasse in which it finds itself and have not fulfilled the hopes which sustained the population during the dark days of occupation.

#### D. - PRESENT POSITION AND FUTURE PROSPECTS

The Government which has established itself in power since last April has officially announced its determination to give the utmost support and encouragement to "private enterprise" and refrain from any action which might in any way displease business circles.

The policy of the new government

One of its first measures was to abolish the processing arrangements for UMRPA raw materials established by the previous government and deliver these raw materials unconditionally

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to industrialists, thus putting an end to the effort to force Greek industry to produce for the needs of the population. This effort had been practically the only serious effort made by the previous government of the Centre and had been carried out, as far as one can judge from a distance, with a considerable measure of success. A rise in the prices of textiles of about 50 per cent is reported to have followed almost immediately, forcing the government itself to comment unfavorably on the greed of industrialists.

The second measure was to grant large credits to industry and commerce, on the theory that this would stimulate production and increase the flow of goods. It is hardly necessary to say that the funds thus obtained were immediately invested in gold.

In other respects the new government is faithfully following the example of its predecessors and is making the people pay the full price for its actions in terms of hardships and frustration.

The net result of this policy has been to sustain the insatiable demand for sovereigns which has been overwhelming the authorities for the last three months and absorbing the rapidly dwindling gold reserve of the country.

Foreign exchange has similarly been granted in ever-large amounts to private importers without any consideration as to the usefulness of the goods to be imported or the prices at which they are obtained.



At the same time the government, backed by all the other Right-wing parties and politicians, has been loudly publicising its determination to "claim" reparations from Germany, Italy and Bulgaria and refuse to be satisfied with any settlement that would provide Greece with less than several billions of dollars in ready cash, this at a time when Allied policy on reparations, repeatedly stated, precluded the realisation of any such hopes.

This deliberate refusal to face realities and disclose the real facts to the public, this irresponsible demagoguery indulged in by people entrusted with the conduct of the country's affairs, is one of the most depressing features of the present set-up in Greece.

While, however, Greece's rulers are living in a world of empty phrases and dangerous make-believe, stark economic realities are confronting the country and calling for early decisions and urgent action.

Greek economic prospects:  
a) the financial position

I have repeatedly explained that financial stability is at present being precariously maintained through heavy sales of gold which absorb the excess purchasing power accumulating, due to lack of taxation and controls, into the hands of traders and industrialists. This purchasing power, unless neutralized, can wreck the whole financial structure of the country in a matter of weeks.

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\*It is characteristic of the prevailing irresponsibility that politicians feel they have done their duty when they have "claimed" financial or other aid. I have never heard any promise to "obtain" such aid.

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It is, however, clear that such a policy cannot be continued for long. It is doubtful whether present reserves can last for more than a couple of months. If at least the government had been using the breathing space thus secured in order to adopt a more realistic policy one might have felt that this loss of gold, however grievous and irreparable, had at least helped to tide the country over until those in power had made up their minds to act more responsibly. Unfortunately this is not the case. Today the government finds itself in a position in which it cannot afford to continue the sales of gold for long and has neither the courage nor the desire to discontinue them. It seems therefore that a new financial collapse is in sight and cannot be delayed for more than a few months.

Such a collapse will probably coincide with the termination of UNRRA assistance and will only serve to dramatize, in the eyes of a distressed people, the helplessness of the Greek situation.

b) the termination of UNRRA activities

It is impossible to exaggerate the effects which the termination of UNRRA assistance will have on the Greek people and the Greek economy.

In the course of this exposition I have had the opportunity to refer repeatedly to the work of UNRRA in Greece and to the invaluable contribution it has made to the alleviation of suffering in the country and the rehabilitation



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of the Greek economy. I have also dealt in some detail with the problems which UNRRA supplies raised in the field of distribution and utilization.

Surveying the work of UNRRA in Greece at this advanced stage of the activities of the organization, one can draw the following picture of the results achieved:

UNRRA has assisted Greece to the limit of its financial and supply ability and, by the end of 1946, will probably have provided the country with goods valued at over 300 million dollars. Although this assistance has recently been curtailed it is still the main factor on which the country relies for ensuring the subsistence of its population and a minimum of economic recovery.

However substantial in itself, this assistance was inadequate to meet the urgent Greek requirements and large gaps in the rehabilitation of the country and the standard of living of the people have remained unfilled.

It would, however, be a mistake to measure UNRRA's contribution in terms of financial assistance alone.

UNRRA has done more for Greece than merely provide desperately needed goods. It has taken over a large proportion of the tasks which a disorganized and unwilling administration was failing to carry out, has alleviated the suffering of the people and speeded up the rehabilitation of the country.

For over one year the UNRRA Mission and Headquarters have been determining with accuracy and foresight the needs of

the country and have been carrying out difficult procurement and shipping operations on her behalf.

I am convinced that even if Greece had had the means to pay for her imports she would have been unable to obtain abroad many of the goods she needed and compete with better-organized countries in the effort to secure desperately short and strictly controlled supplies.

UNRRA has further taken an active part in the unloading, warehousing, transportation and distribution of supplies.

Its regional officers, in particular, have borne for many months the whole burden for the handling and distribution of supplies in the provinces.

Similarly, to the credit of the Health and Welfare Divisions of UNRRA belongs practically everything useful and constructive that has been done in the field of health and welfare since the liberation. Faced with completely disorganized and demoralized services, the UNRRA personnel bravely stepped in and assumed responsibility for the provisioning of hospitals and other institutions, the initiation of child feeding programs and the continuation of those begun during the occupation, the care of displaced persons and the carrying out of essential health measures and have thus decisively contributed to the reestablishment of a minimum of care and provision for the poor and the sick.

In the field of agricultural rehabilitation UNRRA officials have done their utmost to secure the effective utilization



of imported supplies and have been of the greatest assistance to the Government services and to the peasants, whose sincere affection and gratitude they have deservedly earned.

By its firmness and insistence on fair and equitable distribution and effective utilization of UNRRA supplies, the Mission has, throughout its one and a half years of work in Greece, striven to ensure the strict application of the principles governing UNRRA policy and has seen to it that the supplies sent to Greece have really been used to alleviate the suffering and reduce the privations of those most in need.

I am not maintaining that the Mission made no mistakes and consisted only of first class people. This was not humanly possible. On several occasions it misjudged the issues and has tended to shelter behind an unrealistic agreement, which placed responsibility for distribution on the Greek government alone, rather than propose or take drastic steps. In some cases it did not make sufficient distinction between the government and the people and tended to blame the latter for the faults of the former. Some of its officials were neither competent nor suited for their job and there were persistent rumors in the country of cases of individual dishonesty. But considering the Mission's work as a whole it is impossible not to be impressed by the high standard of integrity, objectivity and efficiency achieved and by the sincere interest and selfless devotion with

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which these people have carried out a thankless task under conditions of incredible difficulties and in a tense and unsettled atmosphere.

In my view the withdrawal of UNRRA at the end of 1946 will mean more, as far as Greece is concerned, than the termination of financial assistance. I very much fear that in departing UNRRA will leave behind a gap that the present regime in Greece will be unable to fill.

How will needs and their order of priority be determined after the departure of UNRRA? If the present system of granting foreign exchange to every applicant is maintained, is it possible to expect that necessities will get priority over non-essentials? Will the Government be able to establish a rational, socially just and realistic import program and create an adequate machinery for controlling imports in accordance with the urgency of needs to be met and the foreign exchange position of the country? Will the government maintain the system of controlled distribution of basic foodstuffs at officially fixed prices while scarcities and extreme maldistribution of incomes continue or will it allow imports to be sold freely on the market and be appropriated by those possessing the largest purchasing power, as is being done today for local supplies? Will the government be able to maintain the provisioning of hospitals and other institutions and continue the child-feeding and other welfare programs initiated by UNRRA?



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Will it tackle the problems of agricultural and industrial rehabilitation so as to promote the general recovery of the country or will it surrender everything to sectional interests?

These are anxious questions which the past and present record of Greek governments does not encourage one to answer with optimism. It is more likely that, freed from UNRRA restrictions, the government will divest itself of any responsibility on these matters and leave "private enterprise" to take care of the situation.

It is impossible not to foresee that the departure of UNRRA will be accompanied by a deterioration of the lot of the masses, increased inequalities and exploitation and a general slowing down of the country's recovery.

c) the foreign exchange position

Until now I have ignored the financial problem that will be created by the termination of UNRRA assistance and have attempted to show that even if no problem of foreign exchange existed the termination of UNRRA activities in the fields of distribution, health and welfare and of the obligation of the Greek government to abide by the principles governing UNRRA policy would have resulted in a serious deterioration of the Greek situation and entailed increased hardships for the mass of the population.

The problem of foreign exchange will, however, present itself in a very acute form soon after the withdrawal of UNRRA.

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I hear that the view has been expressed that Greece can be expected to meet her current import needs out of her own foreign exchange resources after the termination of UNRRA assistance. I am afraid I am unable to agree with this view. I have spent a large part of my life dealing with the Greek balance of payments and with the problems it creates for Greece. During the last three years I have closely cooperated with UNRRA in determining Greece's foreign exchange position. The estimates of Greek foreign exchange resources which I have at regular intervals presented to UNRRA have not only been accepted by that Organization but have also every time proved to have been based on over-optimistic assumptions. Today, in bringing to the attention of the U.S.A. government the Greek economic and financial problem, I am more conscious than ever of my duty and responsibility to give an accurate account of the position as I see it and express an objective opinion on Greek economic and financial prospects.

In a Memorandum submitted three months ago to UNRRA I tried to assess the Greek foreign exchange position in the next three years on the basis of the most optimistic assumptions that can reasonably be made. These estimates were discussed by the Financial sub-committee of UNRRA and by the Administration and were recognized as substantially correct and as establishing Greece's need for continued UNRRA assistance. It is already clear that some of these estimates, particularly those relating



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to exports, were over-optimistic.

On the basis of the calculations contained in that Memorandum the picture of the Greek foreign exchange position can be summarized as follows:

A. - The Position in 1946

I. Foreign exchange resources

	<u>Gold</u>	<u>Dollars</u>	<u>Sterling</u>
Gold and foreign exchange holdings 31/12/45	\$28,000,000	\$42,602,615	£30,499,457
Exports in 1946	-	\$25,000,000	£ 1,250,000
Remittances and other foreign exchange resources in 1946	-	\$20,000,000	£ 1,300,000
Expenditure of British forces in Greece	-	-	£10,000,000
Total	\$28,000,000	\$87,602,615	£43,049,457

II. Expenditure in foreign exchange

	<u>Gold</u>	<u>Dollars</u>	<u>Sterling</u>
Imports through private trade	-	\$20,000,000	£ 3,000,000
Imports of fuel	-	20,000,000	
Imports for the first quarter of 1947 which will have to be procured in 1946	-	\$50,000,000	
Government expenditure abroad	-	\$ 6,000,000	£ 4,000,000
Other expenditure	-	4,000,000	
Total		\$100,000,000	£ 3,000,000

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III. Position at the end of 1946

	<u>Dollars</u>	<u>Sterling</u>
Gold and dollar resources	\$115,602,625	£43,049,457
Expenditure in dollars and Sterling	<u>\$110,000,000</u>	<u>£ 3,000,000</u>
Balance end of 1946	\$ 15,602,625	£40,049,457

I had pointed out, however, that approximately \$30,000,000 would have to be retained in order to meet Greece's contribution to the International Monetary Fund, the International Bank and other United Nations organizations and provide a minimum foreign exchange reserve. At the same time, I had ignored the sales of gold on the Athens market which have already absorbed a considerable proportion of the country's gold reserve.

If the preceding considerations are taken into account it will be seen that the gold and dollar reserves available to pay for imports will have been exhausted well before the end of 1946.

I have not included here the \$25 million loan of the Import-Export Bank nor the \$10 million loan for the purchase of USA surplus Army Material because on the expenditure side I have shown current needs alone while these facilities are primarily intended to meet rehabilitation requirements.

As regards sterling, I have already stated that for the time being only negligible amounts can be spent on imports. Thus, the £40,000,000 balance at the end of 1946 will not represent foreign exchange available to pay for imports.



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B. The Position in 1947 and 1948I. Foreign exchange resources

	<u>Dollars</u>	<u>Sterling</u>
Foreign exchange holdings	-	£10,000,000
Exports in 1947 and 1948	\$52,000,000	£ 6,500,000
Remittances and other resources in 1947 and 1948	<u>\$40,000,000</u>	<u>£ 2,700,000</u>
Total	\$92,000,000	£49,200,000

II. Requirements of foreign exchange

Imports in 1947 and 1948	\$430,000,000	£17,000,000
Other expenditure in 1947 and 1948	<u>\$ 20,000,000</u>	-----
Total	\$450,000,000	£17,000,000

III. Balance of Payments 1947-1948

Requirements	\$450,000,000	£17,000,000
Resources	\$ 92,000,000	£49,200,000
Deficit (-) or balance (+)	<u>-\$358,000,000</u>	<u>£132,200,000</u>

The preceding calculations show that the foreign exchange resources that are likely to be available in 1947 and 1948 will not meet more than 30-35% of current Greek needs. They also show that the Greek foreign exchange position will directly depend on the ability and willingness of Britain to allow the effective utilization of Greek sterling balances for the payment of needed imports. Finally it should be mentioned that the British authorities claim a sum of several millions for the settlement of

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transactions entered into during the war which, if maintained, will reduce considerably the balance shown above.

Requirements, on the other hand, have been calculated as conservatively as possible and represent the minimum needed in order to ensure the subsistence of the population and the functioning of the country's economy.

The estimate of \$500,000,000 for the two years 1947 and 1948 was arrived at as follows:

Greek pre-war imports amounted to \$110-120 millions per annum in spite of severe restrictions and strict rationing of the available foreign exchange. Moreover, Greece obtained a large proportion of its foodstuffs and other essential commodities from the countries of Central, Eastern, and South-Eastern Europe where prices and qualities were in most cases lower than those of Western markets. After the war the situation has been reversed and for several years Greece will have to rely almost exclusively on the Western countries. In view of the increase in prices which has taken place since the war it is unlikely that she will be able to obtain a volume of imports equivalent to those of pre-war for less than 200-250 million dollars. Since, however, her productive resources have been drastically reduced as a result of the war import requirements will be at least 50 per cent higher. Thus 300 million dollars per annum represents the most conservative estimate that can be made of current Greek import needs in 1947 and 1948.



It is clear that imports on such a scale, however modest in themselves, are unlikely to be realized with the facilities that will probably be available to Greece. I have therefore reduced this figure by 30 per cent, i.e. to 200 million dollars per annum, which, in my view, represents a minimum below which the country's imports cannot be allowed to fall without endangering her very economic existence and the maintenance of her population.

In addition to these current requirements, elementary rehabilitation needs, such as those previously met by UNRRA, cannot be estimated at less than 50 million dollars per annum. Imports on this scale will be essential if production is to be restarted and maintained and vital communications restored.

Thus, total import requirements in 1947 and 1948, established on a minimum basis, cannot be estimated at less than 250 million dollars per annum.

My conclusion is that Greece will probably be faced in 1947 with a deficit in her balance of payments of the order of 200 million dollars and that in 1948, the deficit is unlikely to be less than 160 millions.

The calculations which lead to this conclusion are necessarily no more than general approximations and are based on certain assumptions with regard to the availability of exports, the level of prices, the foreign demand for Greek

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products, the progress of recovery and so on which have a strong element of speculation and arbitrariness in them. There can be no doubt that with different, equally plausible, assumptions different conclusions might easily be reached.

I am, however, convinced that my assumptions are the most optimistic that can reasonably be made in the light of prevailing conditions. I wish to stress once more that in presenting them to the U.S. Government I am fully conscious of my responsibility to state objectively the facts as I see them. I am attaching in the Annex the sections of the Memorandum submitted to UNRRA which explain in detail the calculations summarized here.

Nor is there anything surprising in the conclusion thus reached. How could a country which, even before the war, had serious balance of payments difficulties and which has suffered such grievous losses during the war and the occupation, be expected to become self-supporting after less than two years of strictly limited outside assistance? Wealthier countries, whose productive capacity and financial structure have remained practically intact, have made it quite clear that they will be unable to overcome their balance of payments difficulties in the next critical years without large-scale outside assistance. By what miracle could Greece alone be expected to become self-supporting in the short period of time which has elapsed, even if recovery had not been slowed down by political and social tensions?

In less than two years, UNRRA will have spent for Greece over 350 million dollars simply in order to maintain the



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population alive and ensure a minimum of rehabilitation, and this at a time when, due to the world shortage of supplies, many urgent Greek needs could not be met.

I have been referring up to now to current requirements alone and have not taken into account the needs for reconstruction. Greek reconstruction has not yet begun. UNRRA has merely touched its fringe and the task of making good the huge damage and destruction of war still remains to be done.

d) The needs for reconstruction

Almost nothing has as yet been accomplished in the way of repairing roads, bridges, port and harbor installations, rebuilding railways and coastal shipping, reopening the Corinth Canal, in a word, restoring those vital facilities so thoroughly destroyed during the war on which Greek economic life depends. Thousands of people are still homeless, hundreds of villages are still mere rubble, livestock still remains seriously depleted, farm machinery and implements are still desperately short and the deterioration of industrial installations has not been made good.

It is now clear that reparations, on which such high hopes had been built, will not contribute decisively to Greek reconstruction. Greece has no other alternative but to resort to borrowing and to undertake the heavy burden of repayment for expenditure that will do no more than restore the Greek economy to its low prewar level.

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A program of reconstruction is not, however, a mere list of import requirements. It implies at the same time an all-out and sustained internal effort and depends for its success on the full mobilization of the country's resources in labor, skill and organizational ability.

On the other hand, the fact that needs are so vast and that they must be met through borrowing creates a heavy responsibility for Greek governments and calls for the utmost care and efficiency in the utilization of the foreign assistance that will be obtained.

Nor can the country expect outside assistance on the scale required if she is unable to convince the competent authorities and institutions that she will use effectively the assistance granted and be able to discharge the obligations that she will be undertaking.

After what I have already said it is clear that the conceptions of Greek governments with regard to the tasks of reconstruction do not recognize the need for an organized internal effort and for government action but are primarily based on the necessity for ample foreign exchange resources which, placed at the disposal of "private enterprise", will enable it to look after the needs of the country.

The inability of Greek governments to utilize the small advance granted almost a year ago by the Import-Export Bank while at the same time asking persistently for foreign



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cash shows how these conceptions of the Right are hampering the progress of reconstruction in Greece. There is a grave danger that Greece will continue failing to take advantage of the facilities, many of them non-recurring, placed at the disposal of devastated countries and that the Greek Governments will continue clamoring for help while doing nothing to speed up the utilization of the help already granted.

Can one expect that when, with the withdrawal of UNRRA, the signing of the peace treaties and the final settlement of reparation claims, the Greek government will be faced with the hard realities of a very critical situation, it will acquire a greater sense of responsibility and adopt a more realistic attitude to the country's economic problems? Present indications are not encouraging and do not suggest that the need for a change in policies is being recognized.

In this connection I do not hesitate to state frankly my conviction that the presence of foreign troops, however necessary on other grounds, is having a definitely demoralizing effect on the economic and social life of the country. There can be no doubt in my mind that the attitude of irresponsibility of the Greek ruling class arises to a considerable extent from their feeling that, while British troops are there, Britain cannot allow a total collapse in Greece and will be forced to take steps to avert it. It was quite usual in private conversation to hear statements like these: "Why worry? The British

will have to do something about it. We are in no position to make further sacrifices."

The British, on the other hand, while protesting their sincere desire to help Greece to their utmost, are not prepared to accept any such responsibility which they consider as an exclusively Greek concern. The more cynical of British officials probably think that the main usefulness of Greek governments is that they can be blamed for the conditions prevailing in the country.

The tragedy is that under this mutual disclaiming of responsibility the Greek economy may well founder and the lot of the people become unbearable.

Reactionary regimes there are in many countries but they all recognize their responsibility to maintain some kind of stability and equilibrium between conflicting interests and take into account the needs of the people. The Greek Right is unique in its inability to devise a policy, however reactionary, that will take care of the situation. The economic and social measures adopted by the France regime appear liberal and progressive when compared with the policies and conceptions of the Greek Right.

Under these conditions it is impossible to imagine that the Greek situation can be left to take care of itself without serious danger not only to the Greek people but also to vital Western interests. The present trend, if unchecked, is clearly towards paralysis and disintegration. In a year or two the situation will appear even more intolerable than it does

#### CONCLUSIONS

a) Further deterioration inevitable.

The spreading of Communism



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today because all other European countries, which are already well ahead on the road to recovery, will by then have returned to normal conditions and it will then become clearer than it is now how much Greece's plight is due to misrule. It would be dangerous to rely indefinitely on the patience and forbearance of the Greek people. Nor is it likely that a people with the history and traditions of the Greeks, however exhausted and weakened by their recent trials, will watch with apathy the disintegration of their country. The explosion will be only the more violent because it will have been so long delayed.

However much disliked by the Greek people, Communism is bound to spread and to take advantage of a situation in which it is allowed to provide the only opposition to the economic and social policies pursued by the Right and capitalize on the despair and discontent of the masses. I am convinced that in any other country which would have tolerated conditions such as those prevailing in Greece Communism would have spread like a wildfire and engulfed everything before it. It would be dangerous to comfort oneself with statistical calculations showing that the strength of Communism is negligible in Greece. Those who have most to fear from Communism have no illusions about this and the Greek Right is fully aware of the danger. While proclaiming that the Communists are a negligible minority, it is taking the most drastic measures against them, is steadily expanding the police and gendarmerie, whose numbers today greatly

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exceed those of pre-war, and lives in such terror of a second rising that even to mention the eventual withdrawal of British troops immediately conjures up scenes of massacre and of the bloodiest civil war.

There can be no doubt in my view that as the situation deteriorates and becomes more intolerable the fear of Communism and of Slav domination will correspondingly weaken and yield ground to general discontent and exasperation. Nor is it necessary that a majority of the population should embrace communism in order that it may establish itself in Greece. Experience shows that a determined and disciplined group, even though a minority, can impose its will on the more apathetic masses once it is allowed to capitalize on prevailing conditions. Moreover, the mistakes and failures of their opponents present the Greek Communists with an excellent opportunity for using a variety of methods and tactics that may in the end prove successful. The fact that they have not taken full advantage of this opportunity up to now is no guarantee that they will not do so in the future. Already there are signs that they have learned their lesson. Their recent appeals for conciliation and moderation show that they are beginning to realize what line of approach will win them followers most effectively. It is also likely that they will sometime reach the conclusion that the irresponsible handling of Greek affairs by the Right is their



best ally and that it is preferable to keep quiet and wait to reap the benefit of the Right's blunders rather than alienate prospective followers by violence and extremism. If the situation is allowed to become desperate they may well succeed in mobilizing a considerable section of Greek public opinion under the banner of democracy, social justice, economic progress and so on and in the end obtain complete control of the country. Present manifestations of violence on the part of Communists are no evidence against the above interpretation. These manifestations may be only a reaction against repressive measures taken by the Government and not part of a deliberate policy of extremism. There can also be no doubt that this intransigence of the government in the political field is bound to drive a considerable number of moderate elements to the Communist camp.

My conclusion is that Greece, deprived of the steady influence of UNRRA, left to face alone formidable problems of reconstruction and adjustment, lacking the means to provide a tolerable subsistence to her population and still at the mercy of profiteers and speculators, would inevitably drift either towards complete disintegration and eclipse or towards violent upheavals that would ultimately end with the establishment of Communism.

The first alternative would be a blow and a disgrace to the Western World to which the Greek people have clung with

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such tenacity through unprecedented trials and vicissitudes. The second alternative would be a disaster for Greece, because, besides establishing in power an intolerant and violent group, it would threaten the very national existence of the country. I need moreover hardly say how decisively such a development would affect vital Western interests and even alter completely the picture in the Mediterranean.

My personal impression is that the present regime in Greece is unwittingly but none the less effectively working for the eventual establishment of Communism.

Recent statements by the Greek Prime Minister, to the effect that Greece is a bulwark against Communism, show how greatly the Right misjudges the situation. Experience shows that the only effective antidote to Communism is improvement in social conditions. A country where misery is so widespread and the fear of revolution so strong can hardly consider herself as a barrier to Communism.

The presence of British troops may retard but it cannot prevent developments such as those I have outlined. When popular discontent reaches a certain point a few foreign divisions can do little to keep the situation under control. Recent events prove that foreign troops are unable to deal even with traditionally subject peoples like those of India and the Middle East, once aroused. They are not likely to be able to keep down a fierce and independent people like the Greeks.

b) British policy



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It will, of course, be asked: Is it likely that the British, who have assumed such extensive responsibilities in Greece, will allow the situation to become uncontrollable?

After careful examination of British aims and policies in Greece, as far as they can be ascertained, I have reached the conclusion that there is no ground for optimism.

Following with dismay the sad developments in Greece under enemy occupation we had all come to realize that, in order to recover, Greece would for some time require friendly guidance and constructive help from her great Allies in accordance with the Yalta declaration. We had moreover hoped that the British, who were prepared to undertake this responsibility, would carry it out effectively in the interests of the Greek people. As far as I am concerned I have always felt that Greece, the only non-Slav country in the Balkans, inhabited by an eminently Mediterranean people with long traditions of freedom and independence and close ties with the West, should look to Britain as a natural friend and Ally while Britain, with such vital interests to defend in the Mediterranean, needed friends in that region and could find none so loyal and reliable as the Greeks. I had always taken it for granted, however, that the close relations with the British which we wished to see established would be based on equality and mutual respect and would prove advantageous to both countries.

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It was, therefore, with growing concern and dismay that I watched the unfolding of British aims in Greece. I do not wish to be unduly critical and I recognize the difficulties facing the British but it is impossible not to feel deep disappointment at the line of policy they have adopted in Greece.

Ignoring completely the great task awaiting them, of giving their support and assistance to a people in distress, they preferred to treat Greece as a mere strategic and geographic factor in the defence of the British Empire and allowed her interests and anxieties to be completely submerged in the complex issues of the Empire. When dealing with British officials in Greece one had the definite impression that Greek problems as such were of no concern to them.

I recognize the grave difficulties with which Britain herself is beset and have no doubt that in adopting such a policy in Greece she was following what appeared to her the easiest and least troublesome course. I cannot help feeling, however, that besides having wrecked the hope of Greek recovery, such a policy was extremely shortsighted from the point of view of British interests themselves.

The Greek situation presented the British with a unique opportunity of exercising their influence in favor of moderation and progress and demonstrating to the world that besides their imperial interests they can have a constructive policy towards small countries, which, while helping these countries, respects



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their sovereignty and independence. I am convinced that the moral prestige they would have acquired through such a policy would have more than offset any extra trouble and effort that would have been required.

Apart from moral benefits, a policy aiming to promote peace and prosperity in Greece would have consolidated the affection and friendship of the Greek people towards the British, a friendship which, as past experience has shown, is far more valuable than any short-term strategic and geographical advantages. As it is, the British managed in less than two years to arouse bitter passions in Greece and alienate the affection of an important section of the population which, a short while ago, was acclaiming them as liberators. There are also indications that even some of the older politicians, who had always been among their warmest supporters, are beginning to resent the close cooperation of the British with the politically most reactionary elements in the country, with the result that instead of helping to calm passions and create unity the British influence is daily becoming more controversial.

Finally, it is impossible not to object to the attitude of certain British circles and in particular of British officials in Greece who, forgetting completely the circumstances and purposes that brought them to Greece, are trying to turn the country into a sphere of exclusive British influence. This is particularly intolerable in the economic field because it disregards completely not only the inability of Britain to give effective assistance to

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Greece but also the imperative need for Greece to participate as freely as possible in world trade and establish close economic and commercial relations with other countries. This is especially true of economic relations with the United States, a country which is not only one of the best customers for Greek products but is also the only country on which Greece can depend for assistance.

Coming back to the question, whether the British will be able to deal effectively with a seriously deteriorating situation in Greece, I can hardly imagine that, even if they could, they would be prepared to reverse their policy at this advanced stage and take a broader and longer-term view of the Greek problem. It is more probable that they will let events follow their course and will try to deal with them, as they have done up to now, on a day-to-day basis, adjusting themselves as best they can to any situation that may eventually develop.

In the preceding paragraphs I have assumed that British troops will continue to be maintained in Greece for some considerable time in accordance with the desire of Greek governments. It is difficult, however, to see how, after the signing of the peace treaties and the eventual withdrawal of Russian troops from the Balkans, the international situation could justify the presence of foreign troops in Greece. I am unable to believe that the coming peace, for which so heavy sacrifices have been made and for whose maintenance the appropriate instruments have already been established, will not provide sufficient protection to small countries against aggression and conflicts, general or localized.



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Even less is it possible to visualize the continued presence of foreign troops in Greece for the sole purpose of maintaining internal order. It is difficult to contemplate with equanimity a development which would reduce an old and proud country to a status approaching that of a British dependency. I cannot accept the view of the Right that the choice for Greece is to be either under the British or under the Communists. All other European countries have been able to reconcile their internal differences and find some kind of solution to the problem raised by the existence of a violent minority. It is impossible to believe that for Greece alone there is no way out.

One of the main objects of this memorandum is to show that the Greek problem is likely in the very near future to become acute once more. For some time now I have come to the conclusion that only a more active interest on the part of the United States can avert a major crisis and maybe a new collapse in Greece.

c) The need  
for United  
States action

This conclusion is based not only on the fact that the United States is the only country that can give effective economic assistance to Greece but also and mainly on the growing realization that in the tensions and rivalries of the post-war period the United States is the only country with a constructive foreign policy aiming to safeguard her own peace and prosperity, not through the pursuit of selfish ends, but through the peace

and prosperity of the whole world. In order to implement this policy the United States have already devoted large resources to the reconstruction of war-devastated countries and have taken the initiative and assumed the burden for the creation of those international institutions through which alone the efforts for the establishment of peace and prosperity in the world can be adequately integrated and coordinated.

Finally, the United States is the only country confident and strong enough to take a longer view of world problems and give their due weight in her foreign policy to moral considerations and the need for greater solidarity and mutual help between nations.

As regards Greece, in particular, the United States is the only Great Power whose prestige has remained unimpaired and which commands the unqualified affection and admiration of the Greek people, irrespective of political opinions or social status. I have shown through what developments the other two Great Powers, Britain and Russia, have gradually become involved in local controversies and are today a subject of bitter passions.

I am convinced that through the pressure of public opinion alone the United States could, by merely expressing its views and giving its advice on Greek questions, decisively influence the course of events in Greece and persuade the people



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that greater moderation and a more constructive internal effort are essential for the recovery of the country.

I am also convinced that it would be in the interest of the United States themselves to help improve the conditions prevailing in Greece or at least prevent further deterioration. The United States is doing its utmost to assist countries whose recovery it considers essential to the maintenance of peace in vital parts of the world. There can be no doubt that conditions in Greece can affect very decisively the situation in the whole Mediterranean. Relatively to her size Greece is at least as important as Italy besides being far more worthy of sympathy and help and infinitely more reliable as a friend.

Until now the United States policy towards Greece has been based on the assumption that the British were contributing effectively to the solution of the country's problems and could be relied upon to take care of the situation there. Such an assumption may have been well justified originally, but it now requires drastic revision in the light of subsequent developments. I quite understand that a country with the world-wide commitments of the United States would hesitate to assume new responsibilities unless this were absolutely essential. I have tried here to demonstrate the necessity and urgency of such action.

I also feel that the call on American resources and personnel implied by a more active American interest in Greek affairs would be limited when compared with the overall responsibilities

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undertaken by the United States and could be met without undue difficulty.

A final consideration which must be kept in mind is the fact that the economic situation in Greece is bound to become desperate soon after the departure of UNRRA and will call for outside assistance. I am certain that the United States will in no case abandon the Greek people to their fate but will help in the future as they have helped in the past through their contribution to UNRRA.

The question, however, arises: instead of giving ad hoc help in response to urgent appeals after the emergency has arisen, would it not be wiser to plan ahead, foresee coming events and integrate this help into a more general program of economic assistance to the country?

Unless this is done, there is a great danger that any help that will be given will not do more than meet immediate needs and will not contribute to lift the country from her state of prostration. Within the framework of a broader plan, on the other hand, such assistance could help the country to stand on her feet again. I earnestly hope that the United States Government will reconsider its attitude towards the Greek problem in the light of the country's economic position and of the situation created by the coming withdrawal of UNRRA and by recent developments in Greece.

I feel that my task has been accomplished if I have succeeded in demonstrating the need for such an overall reexamination of the Greek problem on the part of the United States Government.



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I know that once this need has been recognized the means and the experience to translate into action any policy that may be decided are there and will be used effectively in the interests of both countries.

I shall limit myself to a few suggestions which may help to indicate the lines along which, in my view, United States action in this field can be most effective:

- 1) I have explained why I consider that further assistance to Greece will be essential in 1947 in order to enable her to meet her current minimum needs. I shall not discuss here the form which such assistance may take nor the scale on which it should be granted. These are matters for the U.S.A. government to decide. It is obvious, however, that whether this assistance is granted by some international agency or directly by the United States government, it is likely that it will be intended to meet specific needs such as those previously met by UNRRA and not to provide the Greek government with a given amount of foreign exchange to be used freely for unspecified purposes. If this is so, it is clear that something will have to be done in order to make the Greek government adjust its policy to the real position of the country and to the conditions under which foreign governments, and in particular the U.S. government, are prepared to help Greece.

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In this respect I feel very strongly that it is time to make the actual position clear not only to the government but also to the people. I know that there have been repeated communications to the Greek governments stressing the need for internal measures appropriate to the situation. Unfortunately, however, all Greek governments have withheld the facts from the public and for almost two years misled the Greek people on the real intentions of the Great Powers and on the extent and nature of the help that Greece can expect.

I am convinced that unless an end is put to this equivocal situation, the Greek people will continue to be in the dark about the country's real position and prospects and will be unable to exercise any pressure on the government for a more serious economic effort.

I think that the U.S. government could render a great service to Greece by stating authoritatively and unequivocally to the Greek people itself its attitude to the Greek economic problem, the conditions under which it would be prepared to help, the policies and effort that it expects from the country herself and the measures that it considers essential for the carrying out of these policies and the success of this effort. I am certain that such an authoritative statement on the part of a government universally respected in Greece and of a country so greatly admired for her strength and generosity, would create a deep impression and would clarify so completely the issues that through the pressure of public opinion alone the government might



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be forced to adopt a more responsible attitude towards the country's problems.

I have no doubt that the course I am advocating here not only constitutes an essential prerequisite for the effectiveness of any assistance to be granted by the U. S. government, but would also decisively clear up the existing misunderstandings and place the Greek people face to face with reality for the first time since the liberation.

I know that such a direct approach to the Greek people would not strictly conform with accepted diplomatic usage. The situation in Greece is, however, so serious that such a deviation would be more than justified and I am certain that purely formal considerations would not prevent the U. S. government from acting along these lines once it had decided that such action was necessary in the light of the existing situation.

I should like to warn particularly against the idea that the Greek situation could be in any way improved through the advice of foreign economic experts alone. I have had the opportunity to explain in some detail in this Memorandum that the policies of Greek Governments are not due to lack of knowledge but to unwillingness to carry out the drastic, and often unpopular, measures called for by the situation. I think that all attempts made up to now to influence the actions of Greek governments through such experts have completely failed and have only resulted in weakening the sense of responsibility of those in power and in demoralizing the foreign experts themselves and often making

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them cynical. This, of course, does not mean that an American Economic Mission could not do valuable work in Greece by following the situation, cooperating with the Greek government on all matters requiring joint action and reporting to the U. S. Government. It means, however, that, for the purpose of influencing effectively Greek policies, the sending of such a Mission is no substitute for an authoritative statement on the part of the U.S. Government itself made in the most precise and explicit terms and given the widest possible publicity.

2) My second suggestion refers to the task of reconstruction. I have shown how little has been done in this field up to now and how remote are the prospects of serious handling of this problem by the Greek Government. It should also be recognized that the destruction that has taken place in Greece is so vast and so thorough that it exceeds the capacity of local technical skill and the organizational ability of any Greek administration. On the other hand, the International Bank, which is the main agency responsible for assisting countries in their efforts of reconstruction, will, in accordance with its statutes, insist that the funds that it will make available be used exclusively for the carrying out of serious programs of reconstruction that would restore or develop the productive facilities of the countries concerned and create the capacity to repay. It would be tragic if the internal difficulties which Greece is facing today were to prevent the country from obtaining the assistance for her reconstruction to which her losses and sacrifices fully entitle



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her. Greece has already missed great opportunities and retarded her recovery through her failure to take advantages of the facilities placed at the disposal of devastated countries by the United States government. It is imperative to avoid a repetition of this failure in the case of the International Bank.

I have come to the conclusion that only through the services of American experts possessing the experience and skill required could the problem of Greek reconstruction be effectively tackled.

It seems to me that by providing such experts the U. S. government could contribute decisively towards the recovery of Greece. I have in mind the sending of a mission of first-class technical experts assisted by a few equally able economists who would rapidly survey the damage and the economic situation in Greece, establish orders of priority and then, within the framework of the facilities that are likely to be available to finance an overall program, translate the task of reconstruction into detailed specific projects.

I have already stated my conviction, which springs from practical experience, that foreign experts are always seriously handicapped in such work by their ignorance of local conditions, needs and psychology. No precaution seems to me too great in order to guard against failures which would not only be tragic for Greece but might also mean a loss of prestige for the United States government itself.

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I feel therefore, that the greatest care and forethought should be given to this question and I should like to make a few suggestions which might be found helpful:

- a) The task of establishing and carrying out a reconstruction program for a whole country is a stupendous one and it would be dangerous to imagine that experts of average ability and character could be entrusted with it. Only persons of high qualifications and integrity possessing a long record of outstanding service could successfully undertake such a task. I would have greatly hesitated to recommend this course of action altogether if I were not convinced that there are in the United States persons of that type. I have particularly in mind the technicians, administrators and economists of the great New Deal projects, such as the TVA, who are not only first-rate experts but are also the kind of persons who take pride and pleasure in a good job well done and in rendering a service to their fellowmen.
- b) In order that such technical assistance be really effective it would be necessary for the Mission not only to draw up plans but also to organize their execution. It might do this either directly through a special technical service or, preferably, through firms of the highest standing and reputation. In this



work it should mobilize to the full local skill and ability, train Greek personnel and gradually hand over to them those tasks which they would be qualified to perform.

- c) This Mission should be closely cooperating with the Greek government and Administration but it is essential that it should be directly responsible to the U. S. Government itself. This is the only way to secure adequate supervision of its activities and be certain that it will not deviate from the tasks originally entrusted to it.
- d) I would strongly warn against any suggestions or proposals, however attractive they may sound, to the effect that Greek reconstruction could be carried out as an ordinary commercial investment through concessions of the old type and similar arrangements. Such a course would prove disastrous not only for Greece and for American prestige but also for the investors themselves. I feel certain that the greater the concessions made and the more profitable the terms proposed the greater would be the subsequent disappointment and resentment both of the Greek people and of the American investors. Such arrangements would moreover enable the Communists to speak of "capitalist

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exploitation," and I need hardly say how carefully one should avoid providing them with such ammunition.

The Greek economy is at present too weak and too exhausted to offer profitable outlets for private investment. Only under generous terms and with close supervision and economy and outstanding performance will Greece be able to repay in time the funds borrowed in order to make good the losses and damage of war.

The existence of a machinery such as the one advocated above, by by-passing the Greek administration, would enable Greece to start seriously on the work of reconstruction while her internal affairs are still unsettled and the general situation still unsatisfactory. With such a machinery it will be easy to convince the International Bank that the funds requested by Greece will be used for productive purposes alone and will enable the country to rebuild her economy and carry out her obligations.

The initiation of serious reconstruction work would moreover have a definitely stabilizing effect on the general situation in Greece, would give hope and encouragement to the population and might even detract its attention from barren political controversies to more constructive tasks. I have no doubt that such action would be welcomed by the Greek government itself, whom it would greatly assist in its work and would be immensely appreciated by the Greek people as evidence of sincere American interest in their problems and difficulties.



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- 3) My third suggestion refers to the need for continued assistance in the fields of health and welfare. I have already stated that practically everything that is being done at present in this field is due to the initiative and drive of the UNRRA Mission. I very much fear that with the departure of the Mission everything may collapse again and the thousands of sick and indigent who make up a considerable proportion of the population may be left completely to their fate. This is particularly true of the children whose fate may then become desperate.

Thanks to the humanitarian traditions of the United States, there are a great number of voluntary agencies, some of them already operating in Greece, who, if properly informed about the seriousness of conditions in Greece, would be only too willing to take over part of the work of the UNRRA Mission. In order, however, to act effectively within the framework of an overall program these agencies should closely coordinate their activities and operate through some kind of central body.

I am convinced that once they realize the importance of the work that has to be done in Greece these organizations would be prepared to provide the financial means required both out of their own funds and by appealing to the American public, which is certain to come to the assistance of a people for whom it has always shown special sympathy and affection. I am convinced

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that even from the point of view of the American agencies and public themselves there is hardly a case more worthy of their interest and help. It will, however, be necessary to bring the matter forcefully to their attention and this only the U.S. Government can do effectively by giving them all the facts and information and making concrete suggestions to them.

What I am proposing here may sound as the perpetuation of charity but charitable help is still needed in Greece by the thousands of victims of war and occupation.

The measures I have outlined may seem drastic and unusual but, in my view, such measures alone can take care of a situation as serious as the Greek.

By measures such as these the United States might contribute decisively in halting the deterioration of the situation in Greece and assisting the Greek people in their hard struggle to regain their self-respect and become self-supporting again.

I need hardly say how grateful the people would be for such an interest and assistance. I also feel that any American action along these lines, if adequately explained to the British



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Government, would be welcomed by them since it would relieve Britain of some of the heavy responsibilities she has undertaken in Greece.

I am not proposing these measures as a complete solution to the Greek problem which they are not and cannot be. I have no illusions that real recovery will have to come from within and be worked out by the country herself.

By preventing, however, the situation to become intolerable, by bringing effective assistance to the country and ensuring stability and improvement in spite of the other unfavorable factors working towards disintegration and upheavals, the measures I have proposed would, in my view, successfully counteract the otherwise inevitable spreading of Communism, bring hope and a constructive goal to a bewildered people and give them time to think out their problems and produce a more moderate and responsible leadership.

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ANNEX

MEMORANDUM ON THE GREEK ECONOMIC AND  
FINANCIAL SITUATION

By K. Varvaressos

EXTRACT  
pp 11 - 24

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D. Current Greek Foreign Exchange Resources

In the first Memorandum submitted to the Administration in 1944 we had calculated the foreign exchange resources of the country during the first year after liberation at 60 million dollars.

The data contained in our second Memorandum of September 1945 showed that these resources could not be expected to exceed 33 million dollars in 1945 that it had been overestimated by us by 47 millions.

The latest returns of the Bank of Greece show that even this reduced figure was an overestimate. In fact, current resources in 1945 have not exceeded 29 million dollars as follows:



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	£	\$
Exports*	231,427	13,750
Remittances	17,431,227	1,787,420
Income from Investments	1,026,974	59,926
Other Resources	1,200,003	149,902
Expenditure of American forces in Greece	1,215,694	
<b>TOTAL</b>	<b>£ 21,105,325</b>	<b>\$ 2,010,998</b>

We have not included the £11,500,000 representing British Military Expenditure in Greece which for the time being, are not an asset of the Greek Economy.

Current resources during the first two months of 1946 for which data are available have been as follows:

	In \$		
	January-February 1946	12-monthly rate	Comparison with 1945
Exports	112,893	700,000	231,427
Remittances	3,954,273	24,000,000	17,431,227
Income from Investments	182,439	1,100,000	1,026,974
Other resources	-----	-----	2,415,697
	<b>\$ 4,249,405</b>	<b>25,800,000</b>	<b>21,105,325</b>

	In £		
	January-February 1946	12-monthly rate	Comparison with 1945
Exports	179,487	1,100,000	13,750
Remittances	490,096	3,000,000	1,787,420
Income from Investments	141,178	850,000	59,926
Other resources	-----	-----	149,902
<b>TOTAL</b>	<b>810,761</b>	<b>4,950,000</b>	<b>2,010,998</b>

Expenditure of British forces	1,413,317	8,500,000	11,500,000 (Including the last three months of 1944)
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\* The estimate of 13 million dollars from exports contained in the Memorandum of September was based on the assumption that the export of 4,000 tons of tobacco which was being negotiated at that time between the Greek Government and American companies would be realized in 1945. This, however, has not been the case due to several difficulties that have arisen. Similarly we had assumed exports of dried fruits and other products to the value of £2,000,000 which have not taken place.



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A detailed breakdown of these figures is given in the Annex of this Memorandum, which also contains all the other detailed information requested by the Administration.

Taking into account the preceding figures and all other relevant considerations we estimate the prospects in 1946, 1947 and 1948 as follows:

(a) Emigrants' Remittances

In the Memorandum submitted last September we made the following remarks with regard to remittances. "In last year's memorandum we explained in detail why these resources were bound to suffer a continuous and irrevocable decline.

The sums remitted from abroad since March 1945 have fully confirmed our forecast. Optimists expected that during the first year of liberation emigrants' remittances would amount to 200 million dollars. They pointed out (a) that no such remittances had been made by Greeks abroad to their relatives at home for four years (b) that these four years had been a period of unprecedented prosperity in the countries of immigration and (c) that the tragic plight of their relatives in Greece would induce the emigrants to send home exceptionally generous remittances."

In spite of these favorable factors, however, the sums actually remitted in 1945 have not exceeded \$17,431,227 and £1,787,420 as compared with an average of \$30 to \$40 millions during the prewar period. Moreover the remittances in Sterling represent sums sent by Greek seamen in Britain to their relatives at home out of savings made during the war which will not be maintained in the future.



In our view an important reason for this sharp and unexpected falling off of remittances is probably the fact that a large proportion of the people receiving assistance from relatives abroad were among the 800,000 victims of the starvation and misery created by the occupation.\*

The inescapable conclusion is that remittances will with difficulty be maintained at \$20 millions per annum during the next three years and may subsequently become negligible.

(b) Other Invisible Foreign Exchange Resources

These include income from investments held abroad and the repatriation of capital, earnings of shipping remitted in Greece, expenditure of foreign visitors, cash relief granted to individuals or institutions by foreign voluntary agencies, etc.

We have seen that the foreign exchange obtained from all these sources in 1945 did not exceed \$3,000,000 and was maintained at the same rate in the first two months of 1946.

Of these sources of foreign exchange tourism is the most important from a long-run point of view and, if properly organized, can be expected to make a very valuable contribution to the country's economic development. This, however, is only a distant prospect which cannot be realized in the immediate future.

The earnings of shipping in general and in particular the sums remitted to Greece will remain negligible so long as the losses suffered during the war (2/3 of the merchant fleet) are not replaced. The

\*See Report of the Swedish Delegates to the Peloponnese (January 1944): "Practically every family here (in the districts of Gortynia and Immuria) has relatives in America who previously sent regular allowances to their families. Before the war it was actually possible to live on 5 dollars a month. These allowances have now of course been completely cut off . . . There is widespread starvation in this district."



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uncertainty with regard to the future of shipping is, however, so great that at present there is a marked reluctance to order or purchase ships.

The conclusion from the preceding calculations is that, as compared with prewar, the contribution which the invisible items of the Greek balance of payments is likely to make to the country's total requirements in foreign exchange will be small during the next three years and is unlikely to exceed the 25 million dollars per annum estimated in our Memorandum of last September.

(c) Exports

The country will therefore have to rely increasingly on its exports in order to meet its needs in foreign exchange.

The data available to date afford no indication about the country's future prospects with regard to exports. We have seen that exports in 1945 were negligible, amounting to less than \$300,000. The first two months of 1946 show an improvement corresponding to an annual rate of \$700,000 and \$1,100,000 but again the improvement refers mainly to the Sterling receipts which for some time will not be convertible into needed imports.

The fact, however, remains that as compared with a prewar volume of exports of \$80,000,000 these figures are negligible and reveal that the country has not yet resumed its export trade.

It is almost impossible to estimate the prospects of Greek exports during the next three years because these depend to a very large extent on factors over which the country has no control.

Certain considerations must, however, be taken into account which show that the prospects for Greek exports are very gloomy indeed.

Receipts from exports depend on the availability of commodities for export, their demand abroad and the prices obtaining in world markets.



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1. Availability of Export Goods.

Two crops, tobacco and currants, provided some 60% of total Greek exports, olive oil and minerals provided another 12% and other fruits and some manufactured goods (fertilizers, cotton yarn, etc.) the remaining.

We have already stated in the Memorandum submitted last September that 4,000 tons of tobacco in the hands of the Greek Government were immediately available for export and that another 14,000 tons from the 1944 crop had not been processed yet but would be available for export in 1946. There are no definite estimates yet on availability from the 1945 crop but in view of the fact that tobacco from the 1944 crop has not been exported yet it is unlikely that the 1945 crop will come under consideration for exportation in 1946. However the case may be, it is clear that the problem that will arise for Greek Tobacco will not be a problem of local availability but of foreign demand for it.

This will be true for most Greek products after the next crop. In 1946, however, neither currants, nor raisins, wine, olive oil, etc. will be available in sufficient quantities for export. Owing to shortage of pesticides, vineyard products in 1945 were only 1/3 of pre-war while the shortage of food in the country has led to a very considerable increase in the consumption of products formerly reserved for export. Similar considerations apply to other dried fruits, fresh fruits, olive oil, etc.

As regards minerals and miscellaneous commodities their production is usually determined by the existence of a foreign demand for them. Manufactured goods, on the other hand, are not likely to be available for export for some time.

(2) Foreign Demand for Greek Exports

We have explained at great length in the first Memorandum submitted to the Administration the difficult problems which during the pre-war period confronted Greece with regard to its export trade and the necessity in which the country found itself to accept the terms imposed by Germany on the whole



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of Central, Eastern and South-Eastern Europe and enter into bilateral trade and clearing agreements. We have shown that during the period 1936-1940 60% of total Greek exports were settled by the clearing method and only 40% brought in free foreign exchange. What are the prospects for Greek exports in the post war period? There are no indications yet that alternative markets for Greek products will be secured in the countries from which Greece will have to obtain imports nor that an expanded volume of world trade based on a multi-lateral system of international payments is to be attained in the near future. The fact remains that the whole of Europe is in desperate need of essential supplies from the New World and has no goods or foreign exchange to spare for non-essentials, as most of Greek exports are. At the same time, a great number of countries with which Greece carried out substantial trade such as Roumania, Yugoslavia, Poland, etc. have achieved a new economic reorientation and have already found alternative markets for their products and alternative sources of supply.

These facts explain why, one year after the end of the war, inter-European trade is at a standstill and is showing no signs of an early revival. The truth is that the European economy has suffered such heavy losses as a result of the war that it is unable to recover through its own means and desperately needs an injection of new strength from the expanded economies of the New World.

This being so, it is unlikely that Greece will be able to find a solution to her difficulties before the European economy has been restored and the sterling has become freely convertible into goods or foreign currencies.

It is impossible to foresee at this stage when these conditions will be realized but on present evidence the period of transition may well exceed the three years with which we are here concerned.



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### (3) Prices for Greek Exports

None of the Greek export products are in world short supply so as to benefit from the world increase in prices. On the contrary, the disappearance of the Central European market which, as already stated, absorbed a large proportion of these products, is bound to exert a downward pressure on prices. Greek import needs, on the other hand, are for scarce commodities and manufactured goods in whose prices the largest increases have taken place. This means that the terms of trade for Greek products will suffer a serious deterioration in the coming years.

In the light of the preceding considerations we believe that the prospects for Greek exports in the next three years are as follows:

1946: We have seen that in the first two months of 1946 exports corresponded to an annual rate of \$700,000 and £1,100,000. We pointed out, however, that these figures took no account of the exports of tobacco to USA which will undoubtedly be realized in 1946.

We mentioned the negotiations between the Greek Government and American companies for the export of 4,000 tons of tobacco which were expected to bring in about \$11,000,000. We also mentioned that another 14,000 tons would be available from the 1944 crop. It is doubtful whether the whole of this quantity will be purchased by American Companies.\* There is also uncertainty on the prices that will be paid for additional purchases. Taking all these factors into consideration we are unable to suggest a figure higher than \$25,000,000 from exports of tobacco on 1946, assuming that general conditions allow exports on such a scale to be realized in the next nine months.

Very few other Greek products are likely to be available for export in 1946 and some of them may bring in sterling and not convertible currencies which the country at present needs.

Pre-war exports of Greek tobacco to USA averaged 8,000 tons per annum, but it is probable that for the next year or two the American demand will be somewhat higher.



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If the two-monthly figures afford any indication of the trend of Greek exports they do suggest a much greater increase of exports as compared with 1945 to sterling area countries than to dollar countries.

We believe that \$5,000,000 for these additional Greek exports is the most optimistic estimate that can at this stage be made, based on possibilities rather than present trends.

#### 1947 and 1948

Assuming that exports to the U.S.A. will be restored to their pre-war volume at prices on the average 50% higher than pre-war it is possible to expect some \$15,000,000 per annum from this source.\*

Exports of currants to Britain which pre-war represented the bulk of Greek exports to that country may well be restored to their pre-war level at prices 50% higher than pre-war, but the proceeds will be subject to the limitation mentioned above. We can tentatively estimate exports to Britain in 1947 and 1948 at some \$9,000,000 per annum. Exports to other countries are very difficult to estimate because no indications are yet available of possible developments. We tentatively suggest a figure of \$15,000,000 as our best guess.

This means a total of \$78,000,000 for the two years as compared with the \$120,000,000 estimated in our Memorandum of last September. We are convinced that in the light of recent developments and trends this last figure was too high and would have proved an overestimate.

Summing up the preceding calculations, we obtain the following picture of Greek foreign exchange resources in the next three years:

	<u>GOLD</u>	<u>DOLLARS</u>	<u>STERLING</u>
Holdings of Bank of Greece 31/12/45	\$28,000,000	\$42,602,615	£30,499,457
Exports in 1946, 1947, 1948		77,000,000	7,700,000
Remittances " " "			
Other Resources " "		60,000,000	4,000,000
TOTAL	\$28,000,000	\$179,602,615	£42,199,457

\*Total Greek exports to U.S.A. were as follows:

1935	\$8 million
1936	\$6.5 million
1937	\$10 million



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From the gold and dollar resources we should deduct a sum of approximately \$15,000,000 which will be needed to meet Greece's contribution to the International Monetary Fund, the International Bank and the other Organizations of the United Nations and maintain a minimum reserve in order to meet emergencies and in particular face the difficulties in the balance of payments that will inevitably arise in the near future.

Thus the total dollar resources available to pay for imports during the next three years are likely to amount to \$160,000,000. To these should be added the \$25 million loan granted to Greece by the Export-Import Bank and another \$10 million which according to reports in the British press have been made available to Greece for the purchase of U.S.A. Surplus Army Material (We have not had the opportunity to obtain confirmation of this report yet.)

To the sterling resources estimated at £12.2 millions should be added the £11.5 millions representing the expenditure of British forces in Greece until the end of 1945 and the amount that is likely to be spent until the withdrawal of British forces from Greece. It is doubtful whether the £10 million loan falls into the category of sterling available for imports. On the other hand, the British authorities claim a sum of several millions for the settlement of transactions entered into during the war. As already stated, however, for the next three years the decisive question will be not the total of sterling holdings, but the possibility of their conversion into goods or foreign currencies. The most optimistic estimate that can be made of the amount that it will be possible to utilize effectively in the next three years is £20 millions.

E.) Greek requirements of foreign exchange in the years 1946-1948



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## 1) Expenditure of foreign exchange in 1945

	\$	£
Imports	1,460,135	1,122,648
Government expenditure abroad	1,135,841	1,292,094
Other expenditure	755,216	288,578
<b>TOTAL</b>	<b>3,351,192</b>	<b>2,703,320</b>

## 2) Expenditure of foreign exchange in the first two months of 1946

	January-February 1946	Annual Rate 1946	Comparison with 1945
Imports	1,651,367	10,000,000	1,460,135
Government expenditure abroad	58,336	350,000	1,135,841
Foreign Debt payments	39,295	240,000	
Foreign Exchange granted to individuals	162,655	900,000	
Refund to American forces	131,627		
Other expenditure			755,216
<b>TOTAL</b>	<b>2,043,280</b>	<b>11,490,000</b>	<b>3,351,192</b>
	£		
Imports	234,852	1,400,000	1,122,648
Government expenditure	144,008	900,000	1,292,094
Foreign debt payments	30,772	190,000	
Foreign exchange granted to individuals	80,241	500,000	
Other expenditure			288,578
<b>TOTAL</b>	<b>489,873</b>	<b>2,990,000</b>	<b>2,703,320</b>

The preceding tables reveal the following position:

1) In 1945 imports outside of UNRRA program were negligible, amounting to a total of \$6,000,000 as compared with an average of \$80,000,000 representing normal pre-war imports. Moreover, the bulk of these small imports was realized during the last months of 1945.

2) Imports outside of UNRRA program during the first two months of 1946 show a very large increase with regard to dollar expenditure and no perceptible increase with regard to sterling expenditure. This confirms the point made in this Memorandum that imports from the sterling area are difficult to obtain.

3) Government expenditure abroad in 1945 amounted to some \$6,000,000.



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The lower rate of expenditure shown by the returns of the first two months of 1946 must be attributed to the fact that payments are usually made quarterly.

4) Other expenditure in 1945 amounted to \$2,000,000 and probably included the items shown separately in the returns of January-February 1946 i.e. small foreign debt payments, foreign exchange granted to individuals, etc. We have asked Athens for a more detailed explanation of this item which we shall communicate to the Administration as soon as it is received. In the first two months of 1946, other expenditure appears to be at a higher rate, approximately \$4,000,000 per annum.

The requirements for foreign exchange in the next three years can be estimated as follows:

1946

We have seen that imports in the first two months of 1946 were realized at a much higher rate than in 1945. This was due a) to the curtailment of UNRRA assistance, and the recommendation made to the Greek Government by UNRRA itself to try and supplement to the fullest possible extent the UNRRA program through private imports. b) To the Economic Agreement reached in London last January which provides for the liberal allocation of foreign exchange for imports. It is obvious that the rate of imports suggested by the returns of the first two months is no guide to the probable volume of imports in 1946 since the liberalization of private imports is a recent development and will only gradually result in increased imports. It is likely that imports through private trade in 1946 will be of the order of 20 million dollars.

In addition, over 20 million dollars will be spent for fuel which is no longer included in UNRRA imports. Finally, even if adequate UNRRA assistance to Greece is extended to the second six months of 1946, which is the problem now under consideration, Greece will have to begin procurement three months before the end of UNRRA responsibility in order to insure an uninterrupted



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flow of supplies after December 1946. This means that at least another 50 million dollars will have to be spent in 1946 bringing the total requirements for foreign exchange in 1946 to \$100,000,000 as follows:

Imports through private trade	\$20,000,000
Fuel	20,000,000
Imports for the first quarter of 1947 which will have to be procured in 1946	50,000,000
Government expenditure	6,000,000
Other expenditure	4,000,000
	<u>\$100,000,000</u>

#### 1947 and 1948

As already stated, in the Memorandum submitted last September we had calculated normal import requirements in 1947 and 1948 at \$300,000,000 per annum, estimating that these sums together with reconstruction needs of the order of \$1,000,000,000 represented the total requirements which had to be met in order to enable Greece to return to her pre-war productive capacity and her pre-war standard of living by the end of 1948.

It is now obvious that such a recovery, however modest in itself, is unlikely to be attained. We shall therefore limit ourselves here to calculating minimum import needs necessary to ensure a bare maintenance to the population and a minimum of economic rehabilitation, leaving the requirements above this minimum to be considered in connection with the reconstruction problems of the country.

Even if we reduce the \$300 million to \$200 million and add only \$50 million per annum for rehabilitation supplies we find that Greece will require \$620 million until the end of 1948 for her bare subsistence as follows:

Foreign exchange requirements in 1946	\$100,000,000
Imports requirements in 1947 and 1948	\$500,000,000
Other expenditure, including Government expenditure abroad in 1947 and 1948	20,000,000
TOTAL	<u>\$620,000,000</u>

We have seen that the total resources which are likely to be available during that same period under the most favourable circumstances will not exceed \$275 million as follows:



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Dollar resources	\$160,000,000
Loan of Import-Export Bank	25,000,000
Loan for purchase of U.S.A. surplus Army supplies	10,000,000
Sterling convertible into imports or foreign currencies	<u>80,000,000</u>
TOTAL	\$275,000,000

Thus a gap of \$355,000,000 between needs, calculated on a bare subsistence basis and resources estimated as liberally as possible, is inevitable and cannot be bridged without outside assistance.

The real situation will be even more desperate than these global figures imply. In fact Greece will have exhausted her dollar resources available for imports before the end of 1946\* and will have to face in 1947 and 1948 annual requirements of \$250 million with only \$65 million of current resources, and the hope that it will be possible to utilize part of the sterling holdings to provide another \$40 million of imports.

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Washington, D. C. April 3rd, 1946