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## The Truman Doctrine: Was there a Development Agenda?

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### *Introduction*

THERE IS LITTLE DOUBT THAT THE TRUMAN DOCTRINE OF FORTY years ago had a lasting influence on Greek affairs. In the year 1947 the Greek state was in the midst of the worst crisis in its history. A civil war was actively unfolding within the country, violence and misery were the norms of life, and the economy was in a state of collapse. U.S. aid initiated under the Truman Doctrine led to an eventual resolution of the political/military crisis as the civil war ended in 1949. It was thus of critical importance in the shaping of the postwar social order in Greece. That social order was built around a strong anti-communist state. Massive injections of U.S. aid enabled the Greek state to restore its economic functions and powers. Inasmuch as the international environment and the internal conditions in Greece differed considerably from what they had been in the prewar period, the late 1940s and early 1950s witnessed important innovations in the layout of the machinery of the state; links between the state and the economy were fashioned on a new basis. This was perhaps the most lasting effect of the period over postwar developments. Basic institutional arrangements put together at that time would preside over the postwar economic "miracle" as well as the crises of the Greek economy for over forty years.

Looking back over these forty years, and trying to go beyond a superficial accounting of strengths and weaknesses in Greek social progress, there are a few fundamental features which are significant. There has been a persistent lack of coherence in the Greek social order. In the economic sphere, this is evident in the size and role of Greece's tertiary sector which has variously operated as a collecting mechanism of otherwise unemployable labor, capital, and entrepreneurial energy. It is also evident in the fact that, as a production system, Greece has lacked an indigenous development "engine" which would lend dynamism and consistency to the country's postwar social transformation. Instead, it has had a powerful and growing public sector which has functioned



as the essential mechanism of cohesion both in social and economic terms. As it is well known, economic growth in Greece has been remarkable, at least until the early 1970s. One plausible interpretation suggests that this growth was the outcome of demand forces which grew steadily both domestically and internationally, buttressing the Greek "economic miracle" as long as they lasted. The bulging Greek public sector functioned as an internal mediator and regulator of these demand forces, and kept growing and gaining in importance as the economy was growing. However, it scarcely became a source of development impulses, and it remained divorced from productive activities despite its growth. It is well worth asking, I think, how much of this was foreshadowed in the institutional arrangements which were fashioned in the late 1940s.

In that context, it is possible to put together some thoughts about the long-term significance of the Truman Doctrine, from the perspective of Greek economic development. Naturally, the impact of the Truman Doctrine cannot be viewed as simply the outcome of what was in the minds of American policy-makers at the time. What happened over the last forty years was not, in any sense, the unfolding of an omniscient American plan worked out in the 1940s. Nor were the institutional arrangements put together in the late forties simply the realization of an American scheme. The powerful pressures generated by U.S. intervention were circumscribed and mediated by Greek social realities and structures. Thus, whether there was a "development agenda," and the content which this agenda acquired, should be properly seen as the outcome of interaction of American objectives on one hand, and Greek visions and potentialities on the other.

#### *Economic-Ideological Aspects of U.S. Intervention*

The enunciation of the Truman Doctrine on March 12, 1947 was not an act of economic policy. It was the first explicit statement of a foreign policy whose fundamental precept was the containment of communism and "Soviet expansion."<sup>1</sup> Yet, the immediate cause which precipitated the Doctrine's enunciation was economic: the financial crisis faced by Britain. Furthermore, the chief instrument which would be used in the Doctrine's implementation was also economic: the \$300 million aid package to Greece and Turkey. The importance of the economic element lies, of course, in the fact that it not only contained the instruments of policy, but it also formed a corollary aspect of the

<sup>1</sup>See Joyce and Gabriel Kolko, *The Limits of Power* (New York, 1972), especially chap. 12. See also Richard M. Freeland, *The Truman Doctrine and the Origins of McCarthyism* (New York, 1985), especially chap. 2 and 3.

policy's goals. In the logic of the Truman rhetoric, political and economic goals were meshed together.

In the famous speech to the joint session of Congress, the President justified the need for aid to Greece by making three basic assertions. The first was that Greece was in dire economic condition and that the U.S. should supply assistance because "no other nation is willing and able to provide support." The second assertion was that conditions of human want and misery had bred a militant communist minority which "had made economic recovery impossible" and which was threatening the "very existence of the Greek state." The third assertion was that the defeat of communist aggression was a strong precondition for Greece to become "a self-supporting and self-respecting democracy."<sup>2</sup> These assertions were to become the basis of U.S. policy in Greece. The simple logic of the Truman rhetoric was more geared to the need for positive perceptions about the Greco-Turkish program in a suspicious Congress and public opinion, rather than to an accurate assessment of Greek realities. It seemed to suggest an extremely handy recipe for Greece's social progress: The main stumbling block that was standing in the way of Greek recovery was the militant communist minority. Its removal would unblock the way towards the goal of that "self-supporting and self-respecting democracy." Despite the obvious rhetorical exaggerations and simplifications, the recipe was founded on an implicit theoretical core. This was a strong presumption that, once the communist stumbling block was eliminated, "healthy forces" within Greece would assert their dynamism and bring about cherished economic progress.

On the fact of it, then, there was a simple development agenda projected in the Doctrine's rhetoric. The goal of the agenda would appear to be the "self-supporting democracy." The motive mechanism would be not U.S. aid, but the dynamism of indigenous social forces. The U.S. aid package was only the immediate instrument which would set these forces free from disruptive communist interference. This notion of the function of aid is quite central. The management of U.S. policies in Greece would have to be adjusted to indigenous realities which were at variance with the Truman rhetoric. Yet, the conception of aid embedded in the Truman rhetoric would not be altered. Aid was offered not as "development assistance" but, rather, as a medium of achieving the social and political *preconditions of development*.

An important complement to the Truman speech, in terms of policy documents, is the report of the Porter mission. The mission was already

<sup>2</sup>Ibid. pp. 84-86.



in Greece at the time of the presidential speech to the joint session of Congress, and it submitted its report about a month and a half later.<sup>3</sup> This report was to become the guiding document of AMAG operations. Its perspective was clearly focused on Greece's economic problems. Its style was "technocratic" rather than rhetorical and its precepts, at least according to one student of the period, were colored by a Roosevelt-liberal tinge.<sup>4</sup> The Porter report was an interesting mix of realism and ideological postures. Being in place in Athens, the mission could observe both the general condition of the economy and the stature and quality of those who were responsible for handling it, on the Greek side. They could also assess the outlook and potential of the various social strata which would have to shoulder the task of recovery, once the communist threat was eliminated. The report painted a dreary picture of dislocation, mismanagement, and demoralization in the government camp. It is worthwhile to gauge the mission's explanations and policy prescriptions, with a special focus on the question of development agenda.

Here is a brief rendition of the Porter rationale: Greece in 1947 was a devastated country, but even its prewar condition was not satisfactory. Traditionally poor and underdeveloped, Greece should and could improve the lot of its people in the postwar era. Its development should be based both on improvements in the conditions of agriculture and in the expansion of Greece's industries. The basis of industrial expansion would be Greece's undeveloped energy sources, mineral wealth, and agricultural materials. These objectives, however, could only be achieved once the task of basic reconstruction had been carried out, on one hand, and essential means of livelihood for the population were secured on the other. The most urgent priorities of reconstruction had to be placed in the repair of the country's transportation network to facilitate the movement of goods. An inordinate amount of responsibility for these tasks was laid at the doorstep of the Greek government. Unfortunately, the machinery of government was in a terrible state of disarray, and this was worsened by political instability that forced frequent changes of top government officials. Greek private capital was engaged in speculative activities and flight from Greece, rather than investment in the country's reconstruction. This was due to a lack of confidence in the country's future and fear of communist takeover. The role of U.S. economic aid would be to provide funds for reconstruction, but also to bolster confidence both for the government and private

<sup>3</sup>U.S. Department of State, 868.50.Porter/4-2547, *Tentative Report of the American Economic Mission to Greece* (referred to below as *Porter Report*).

<sup>4</sup>Lawrence S. Wittner, *American Intervention in Greece, 1943-49* (New York, 1982), chap. 6.

capital. Part of this function devolved in bringing about monetary stability. Development could not be based exclusively on American public assistance. It would be carried forward by private capital, once confidence had been established. The role of the U.S. permanent mission was to offer advice, wielding even executive authority within the country, in order to overcome the problems of corruption, inefficiency, and indecisiveness of the indigenous government, which were more or less seen as necessary evils.

It is clear that the conceptual fabric of the Porter report was more complex than that of the Truman statement. Yet, it represented an elaboration, not a contradiction, of the Doctrine's theoretical core. It maintained the notion that aid should be directed to the establishment of preconditions for development, and that the task of development should be completed by other agents. It acknowledged the disarray of both public and private economic mechanisms within Greece. This acknowledgement implied that the defeat of the communists was perhaps a necessary, but not a sufficient, condition for the emancipation of indigenous dynamism. As a result, the report projected the functions of U.S. aid at three levels. First, aid would provide funds for reconstruction, alleviating a capital shortage. This was the classic function of aid, but it was supplemented by two additional ones. The second was that aid would become a basis for the establishment of public economic authority within the country, a portion of this authority being directly vested in the AMAG, rather than the Greek government. Presumably, as time went on, authority would be transferred back to the government. Finally, aid was going to operate as a psychological boost, becoming a vehicle in the creation of "confidence." This last aspect was the most noteworthy because it offered an interesting conceptual bridge between the role to be relegated to internal economic dynamism and its apparent absence in 1947. If such dynamism were not apparent in 1947, the argument went, this was due to a lack of "confidence." If only "confidence" could be established, the internal dynamism would surface and take over the process of extricating Greece from its traditional underdevelopment. The theoretical conception guiding the Porter report prescribed certain limits on the role of public funds. *They could be used to put together those elements of physical and psychological infrastructure necessary for the flourishing of private initiative and dynamism.*

The Porter report also offered an elaboration of the Truman term of "self-supporting" democracy. In general terms, the report maintained that Greece could achieve a higher living standard for its people, *within its means, i.e., without incurring chronic balance of payment deficits*. As we saw, the path of that improvement required some degree of industrialization. It also required the development of new



export markets, as well as the reinstatement of Greece's traditional sources of "invisible" receipts (i.e., tourism, shipping, and emigrant remittances). While mentioning these items, and suggesting broad outlines of desiderata, the report did not propose strategies (except for suggesting the desirability of drachma devaluation). This was rationalized explicitly. Reconstruction (of infra-structure essentially) had to take precedence over thoughts and plans of development. Immediate balance of payment problems had to be tackled by either arranging for immediate export of agricultural products (especially tobacco and olive oil) and minerals, and/or control of nonessential imports. The report was quite vague about the longer-term export possibilities and prospects. This must have primarily reflected the fact that, up to that point, neither the British nor the Greek government had worked up a scheme for the country's economic future beyond the reinstatement of prewar conditions. It was perhaps also caused by the yet unclear status of European recovery, which would normally be expected to furnish most of the export opportunities for Greek products. After all, the formulation of the Marshall Plan was still about a year away.

In order to place the Porter mission's outlook in perspective, it is important to compare it with the basic directions which British policy had mapped out for Greece during the preceding period, from liberation to the end of 1946. Active British intervention came to an end with precisely the announcement of the Truman Doctrine, and we should recall that the imminent crisis to which the doctrine was responding was not really a sudden turn in Greek affairs per se, but rather a rapidly gathering economic crisis in Britain.<sup>5</sup>

Throughout the post-December 1944 period, the British had followed a policy of political intransigence and economic conservatism which acted as a strongly polarizing factor within Greece, and which progressively reduced the options of political accommodation to the point that open civil war broke out in late 1946. In the briefest possible characterization, British policy was founded on two tenets. The first was an overriding geopolitical definition of postwar British interests. Greece had to remain within the British sphere of influence because of its importance in the Balkans and the Middle East. This implied that Greece's internal political order should be so arranged as not to generate challenges to Britain's grip on regional affairs. The second tenet was that the best way to guarantee that British supremacy would go unchallenged was a reinstatement of the basic structures of the prewar (and pre-Metaxas) political order. Clearly, the strong Leftist movement,

<sup>5</sup>Freeland, *Truman Doctrine*, pp. 88-101.

which had been spearheaded by the Communist Party and had grown in the meantime to a powerful political force in Greece, did not fit in the British scheme. Therefore, it had to be neutralized, even if the price for that was a protraction of Greece's economic plight and misery. That this price to be paid was indeed very high should not have escaped British policymakers. Greek recovery would be impossible without a new "social contract" among the major social forces in Greece. Political polarization was quickly subverting the ground on which any such "social contract" could be founded. As a result, the stance of British policy in the economic sphere had been inevitably led to a two-stage approach. The first would involve "stabilization," the second would extend to "reconstruction."

Most of what we now know about British actions in the economic sphere suggests that they were more oriented to reestablishment of the prewar economic order in Greece than to any schemes of new economic development.<sup>6</sup> In fact, the mainstay of British concerns in the field of economic policy was to stabilize the economy by obtaining a balanced budget and halting inflation. After the failed attempt to impose budget balance through the Varvaresos policies of new taxes and wage-price controls in mid-1945, the British appeared to orient themselves to stabilization enforced through actions which centered in the monetary, rather than the fiscal, sphere.<sup>7</sup> This orientation was evident in the London Agreement of January 1946. The agreement provided for a "stabilization loan" to Greece and required the formation of a powerful Currency Committee with wide powers of control over money circulation in Greece.<sup>8</sup> Stringent control on credit and attempts to restrain government borrowing were to be the fundamental policies of the Currency Committee. Its policies, which reflected the primacy of stabilization, left practically no room for investment expenditures in favor of reconstruction. A complementary policy pursued immediately after ratification of the London Agreement was the device of open-market gold sales.<sup>9</sup> This device was fashioned as an anti-inflationary measure and as a boost of the drachma. As I have argued elsewhere, that type of stabilization policy was not only postponing the possibility

<sup>6</sup>See, for example, the *Interim Report of the British Economic Mission to Greece* (January 31, 1947) in U.S. Department of State file, National Archives, Washington, D.C. The whole attitude of the *Report* is permeated by a spirit of restoration.

<sup>7</sup>Stavros B. Thomadakis, "Stabilization, Development, and Government Economic Authority: Greece in the 1940s" (1988, unpublished ms.), especially sect. E.

<sup>8</sup>The Currency Committee was established by the enactment of Law 1015 of 1946, in accordance with the provisions of the London Agreement.

<sup>9</sup>This policy was implemented on the basis of Law 944 of 1946. See also the comments in *Porter Report*, chap. 2.



of reconstruction and development, it was actively subverting it, by squandering national resources and fostering speculation as the basic mode of private entrepreneurial behavior.<sup>10</sup> Thus, instead of mobilizing domestic resources in the service of national recovery, the policy was in effect using up resources in order to reassure the social fears of local capital, by offering outlets to their speculative tendencies. Yet, from the viewpoint of British policy, this type of stabilization was the only one available, within the confines of their political agenda on one hand, and their resource constraints on the other.

The recommendations of the Porter mission agreed with British precepts in two respects. The first was the primacy of bringing about fiscal order by putting government expenditures and borrowing under control. The second was that a modicum of financial stability could be obtained by measures of monetary character on one hand and a policy of wage and salary restraint on the other. These two precepts together constituted the core of everyday economic management which the British followed and which the Americans would inherit, and apply with greater effectiveness as well. They constituted a conservative conception of current policy which applied the force of state economic power in only those areas that did not threaten directly the existing structure of property relations, and the basic prerogatives of the country's merchant-industrial bourgeoisie.

In other respects, however, the Porter mission recommendations parted ways with British precepts. The most important difference, perhaps, was that the mission emphasized very strongly the need for new development in Greece, and the inadmissibility of simple reconstruction of the prewar economy. That type of goal was simply absent from the articulations of British policy. It was consistent with contemporary American ideologies of a postwar system of open economies in which many national economies would compete with one another without being led to collapse. It was also politically functional in a country which had been chosen to become the first example of anti-communist reconstruction, and in which, therefore, tangible evidence of economic progress had to be readily obtained. The emphasis on development and the need to embark on a development effort relatively quickly led the Porter mission to envisage stabilization and development as somewhat parallel, not sequential, objectives. Basic reconstruction was a priority step, to be sure, and it was seen as a precondition of the full-fledged drive to economic transformation, rather than as a simple rebuilding of the damages of war. It is indicative, for example,

<sup>10</sup>For a fuller interpretation of this problem in the context of the Greek social formation, see Stavros B. Thomadakis, "Stabilization, Development," sects. E and F.

that development of Greece's energy sources was specifically sought in the Porter recommendation. It should also be pointed out, however, that the range of the American scheme for Greece, as it emerged from the Porter Report, was much more ambitious than earlier British schemes, for the simple reason that the U.S. faced a lesser resource constraint than Britain had. Thus, the difference in conception of policies was not only attributable to differences in economic visions between Britain and the U.S. It was also related to the fact that the former was financially exhausted and attempted to maintain its international position in the face of diminishing economic potentialities, whereas the latter was economically strong and looked forward to a dominant economic position in the postwar era. After all, this fundamental difference in position was also feeding into the basic differences in world outlook between the two transatlantic allies.

The precepts of the Truman rhetoric and the elaborations of the Porter Report specified the political and economic parameters of desiderata for Greece. *In essence, these entailed the formation of an anti-communist state which would win the civil war and which would prove economically viable and capable of procuring some degree of national development.* This was the "project" undertaken by the Truman Doctrine. Aside from the obvious difficulties associated with the conduct of military operations, this "project" had to be implemented within two types of limits imposed by historical conditions and the social situation in Greece at the time. On one hand, there was the problem of ideology: The notions of development, industrialization, and national planning had found in the communists and the broader Left their most ardent proponents. Inevitably, the development agenda of the anti-communist state had to be couched in terms of concepts and instruments which would distance and differentiate it from the platform of the very political force which was defined as "the enemy." On the other hand, there was the problem of social agents of development: The Greek bourgeoisie had demonstrated no particular inclination to the task, as the Porter Report testified. There seemed to be a vacuum of development agents in the array of anti-communist social forces, and this presented a formidable problem. These two limits had been completely obfuscated in the Truman rhetoric, which had painted a picture of forces of good and evil. In that picture, communists sought the creation of chaos and prevented the emancipation of healthy indigenous drives for progress. The limits of the anti-communist state would not be overcome so easily. The proof of this is found in the methods and the institutional arrangements which furnished the instruments of U.S. economic policies in Greece, in the period immediately following the enunciation of the Truman Doctrine.



*The Left, the Right, and the Question of Development*

During the occupation and in the immediate period after liberation, Greece had witnessed considerable intellectual ferment on the question of development. The dissatisfaction with the prewar state of affairs and the expectation of a better postwar world, in which fascism would be permanently defeated, were so widespread that they combined to foster new thinking about the country's future. The possibility of breaking out of traditional underdevelopment started being seen as a feasible task by intellectuals, across the Greek political spectrum. That economic progress would be a primary goal of the postwar social order, and that the state was going to play an important role in the process, appeared to be commonly accepted notions in 1944.<sup>11</sup> In this generalized climate of progressive visions and expectations, the crucial antithesis between the Right and the Left was not evident in a dichotomy on the need for economic progress per se. On every side of the political spectrum, party programs professed a commitment to a higher standard of living for the people. The differences, however, manifested themselves on the question of social-economic structures, the configuration of social forces, and the "development strategy" which would ensure economic progress. There were three dimensions to the question. The first had to do with property relations and the role of foreign aid. The second had to do with the logic and the limits of industrialization. The third had to do with the role of the state in the process of economic advancement.

The issue of property relations in the mid-1940s was not one that could be debated in relatively detached terms. The economic experiences of the occupation had led to a vast redistribution of wealth. Shortages, inflation, and black markets had created extremes of poverty and riches.<sup>12</sup> Greece was a devastated and poor country, but not all Greeks shared equally in the country's poverty. There were those who had amassed considerable fortunes during the occupation, and this wealth did not fail to manifest itself in conspicuous consumption after liberation, with the opening up of the channels of foreign trade. In one of his most revealing statements, Paul Porter himself decried the extremes of luxury and misery that one could openly observe in everyday life in Athens in 1947.<sup>13</sup>

<sup>11</sup>For a documentation of views during and in the immediate aftermath of the occupation, see Christos Hadjiioissif, "Απόψεις γύρω από την βιωσιμότητα της Ελλάδας και το ρόλο της βιομηχανίας" in *Αφιέρωμα στο Νίκο Σβορώνο* (Rethymo, 1986), pp. 348-56.

<sup>12</sup>Stavros B. Thomadakis, "Black Markets, Inflation and Force in the Economy of Occupied Greece," in *Greece in the 1940s: A Nation in Crisis*, J. O. Iatrides, ed. (Hanover, 1981), pp. 61-80.

<sup>13</sup>Wittner, *American Intervention*, p. 168.

In the context of blatant inequalities, the issue of property relations became a central and heavily charged item of political contention. The problem was not simply one of social justice. It was one of development as well. Those who controlled wealth within society were, in fact, vested with the enormous power of controlling available social savings and their use. The state budget, on the other hand, was not a mechanism of social saving. On the contrary, it was laboring under perpetual and large deficits, thus being a net user rather than a generator of savings. State economic authority was eroded since the post-December governments could not credibly command the means of capturing and allocating domestic resources. Anti-communism played an important role in this; any government politician who attempted to impose control would be quickly branded as a communist sympathizer. It is in this context that the Left and the Right differed sharply about property relations, and this difference also reflected on their attitude about the corollary issue of the significance and the function of foreign aid.

For the Right, the provision of foreign aid to Greece was an organic element of the economic agenda. Inasmuch as property relations were not to be disturbed within the country, there was precious little that any government could do to harness domestic wealth in the service of a recovery program. Thus, if the "business classes" were to be allowed to retain control of their accumulated fortunes, the conversion of these ideas to investable funds would have to wait until "confidence" had been restored. To restore "confidence" in turn, some reconstruction would have to take place, and this could only come from external aid. Thus, external aid acquired an extremely important role as the necessary prerequisite for that type of economic normalization which would leave property relations intact. It must also be noted at this juncture that this conception of the development agenda was projecting the logic that the Porter Report would adopt, from the outset. Foreign economic aid was the instrument that would relieve the Greek social system from the tremendous internal pressure of altering property relations and the existing configuration of economic power.

For the Left, things stood quite differently. Those who controlled domestic wealth could not be allowed to control the disposition of social savings. They were burdened with the stigma of illicit enrichment during the occupation through black market activity. They were manifestly engaging in speculation in the post-liberation period, thereby subjecting the mass of the people to a prolongation of their misery. Furthermore, they could not be trusted with the task of national development since, as a class, they had failed, even in the prewar period, to carry out the historic mission of national economic progress. The agenda of national recovery should be founded on several interconnected



premises. Industrialization would be the cornerstone of national development, and would require planning over the long term. Strategic industrial sectors (e.g., energy, metallurgy) should be nationalized so that investment in those sectors could be brought under social control. The banking system should also be nationalized to function as the social circuit of collection and allocation of savings. It must be noted that this view did not exclude the existence of private enterprise on the basis of principle. Rather, it required sufficient impulse from the nationalized sectors so as to induce private initiatives to move in tandem with the goals and the tempo of industrialization.

The views presented by the Left insisted on the primacy of heavy industry as the core of Greece's new industrial structure which would lend coherence, durability, and regenerative impetus to economic progress.<sup>14</sup> This conception of industrialization was quite radical in terms of Greek experiences before the war. It sought the transformation of the economy from a producer and exporter of raw materials to an industrial society. It posited that vertically integrated industrial activities were feasible in a number of areas, such as metallurgy, chemicals, electric power, tools and some types of machinery, and means of transport. Industrial construction of this type would not only facilitate the parallel development of light industries, but would also allow Greece to gain command on modern techniques and to elevate its labor from the status of "unskilled labor" to a modern, technically proficient workforce. This was to be the basic guarantee of continued progress and economic growth.

In the context of this scheme, foreign aid would only play a role as an instrument of immediate relief. The formulation of industrial plans and projects would allow the country to seek and obtain external finance based on the promise of these projects. Thus, the international economic relations of the country would be constructed on the basis of its own productive initiatives and priorities, rather than on the basis of the political will of foreign governments, whose objectives did not necessarily mesh with national goals.

On the other side of the political divide, within circles of right-wing and anti-communist opinion, there was much less uniformity about the mechanisms and content of social progress. There were those who clearly propounded industrial development, and there were those who were ambiguous about it.<sup>15</sup> Apparently, as time passed after liberation,

<sup>14</sup>The most systematic views of the Left are offered in Dimitris Batsis, *Η βαρειά βιομηχανία στην Ελλάδα* (Athens, 1947, 1977).

<sup>15</sup>For example, among non-communist economists, the two most prominent representatives were divided on the issue of industrialization. Xenophon Zolotas was an ardent proponent. Kyriakos Varvaresos was an unmitigated sceptic.

and as polarization was becoming more and more the norm of Greek political life, there was a retreat of right-wing opinion from their original visions of development held during or immediately after the occupation.<sup>16</sup> This was tangible evidence of the need to establish "ideological distance" from left-wing notions on one hand, and, on the other, an outgrowth of the social insecurities of the Greek bourgeoisie which felt threatened by the industrialization schemes propounded by the Left.

The overall concern with economic modernization was not obliterated, however, within right-wing circles. A central idea, which was also congruent with immediate needs for provisioning, was the drive for restitution of the country's agricultural production and its modernization. This was apparent in the fact that perhaps the only area in which post-December governments were able to move relatively effectively was the reestablishment of the functions of agricultural credit through the Agricultural Bank of Greece. The issue of agricultural modernization had been also forcefully pushed by a FAO mission which went to Greece in 1946.<sup>17</sup> A crucial conclusion of any reasonable strategy for agricultural modernization was that surplus labor would be released from that sector, and that outlets should be found for its alternative usage. One possible outlet would be emigration, but this solution did not seem to surface in mainstream discussion until the late 1940s or early 1950s. Another possible outlet could be provided by an increase in Greek land space, and an extension in the range of agricultural employment. This notion did surface in the mid-1940s and furnished a sort of economic argument for nationalist demands of annexation of areas from Greece's northern neighbors in the Balkans.<sup>18</sup> Naturally, this type of "national aspiration" was couched in traditional conceptions for the resurrection of "greater Greece," (or even the Byzantine Empire!), and also meshed well with the emergent transformation of Greece's northern border to a hot boundary between East and West. In addition, nationalist projections of the idea of greater Greece furnished a formidable propaganda counterpoint against the communists who were blamed for working to the contrary goal, namely, the dismemberment of Greece.

<sup>16</sup>Hadjiiossif, *Απόψεις*, pp. 356-60.

<sup>17</sup>UN Food and Agriculture Organization, *Mission Report on Greece* (April 1947).

<sup>18</sup>See Hadjiiossif, *Απόψεις*, pp. 356-60. For one proponent of such a viewpoint, see Athanasios Sbarounis, *Σκέψεις τινες διά μεταπολεμικήν βιώσιμον Ελλάδα* (Athens, 1945), especially Part 4, chaps. A and B. Sbarounis, who was at the time Deputy Governor of the Bank of Greece, propounded not only the annexation of Northern Epiros but even the creation of Greek colonies in North Africa. Indeed he was among the first proponents of emigration, and urged that the Allies should allow Greek settlements in their colonies. In a highly suggestive appendix (Appendix I) of his book, he gave data about the land area of the Byzantine and other ancient empires!



The third possible outlet for surplus labor was, of course, industrialization. This would, in fact, become the dominant notion in conjunction with the visibility it had obtained from the Porter Report, as well as from the earlier report of the FAO mission. Its function and its limits, however, were viewed differently on the Right than on the Left. Being the absorber of surplus labor, new industries would have to be basically labor intensive. This choice excluded the prospect of "heavy industry," which was central in the industrialization schemes of the Left. Upon reflection, we can discern that labor intensive industry had two additional implications for the configuration of the country's economic order. The first implication had to do with international orientation. Greece's insertion into the Western bloc, and mainly the economy of Western Europe, defined the country's main "comparative advantage" as the supply of cheap labor. The promotion of labor intensive industries was a natural corollary of that orientation. The second implication was that labor intensive industries were compatible with (although not to be exclusively based on) the preservation and expansion of the economic space occupied by small enterprise. Small enterprise offered many advantages from a right-wing perspective. It diffused the commitment to private property through lower social strata. It could recreate the social buffer zone of petty entrepreneurs who had traditionally interposed themselves between the bourgeoisie and the increasingly militant working class. It finally offered an organizational vehicle for the enforcement of a cheap labor policy, since it would operate with owner or family labor and would, therefore, remain outside the scope of labor struggles and the collective impact of union demands.

The differences between right- and left-wing views on industrialization were epitomized in their respective outlooks about the role of the state and its links with the economy. In order to comprehend the scope of these differences, we must remember that in the immediate post-liberation period, the role of the state was *de facto* enlarged. Urgent needs for the organization of relief, monetary reform, infrastructure repairs, and procurement of essential raw materials for the start up of rudimentary production were areas of government action and coordination both within Greece and internationally. These conditions tended to reinforce, rather than weaken, the ideological justification of state intervention across the political spectrum. Thus, the differences between opposing political views in Greece were not formulated in simplistic terms of more or less state intervention. Rather, they were formulated on the basis of the quality of intervention.

From the perspective of the Left, the state had to acquire an economic role which would cut across the cycle of reproduction and

accumulation. National planning, credit allocation, and nationalized production in new industries formed the nexus of necessary state activities. These variegated functions presupposed, on one hand, that the state itself would be controlled by an anti-oligarchic alliance of social forces and, on the other hand, that it would control the development process in the interest of these forces. This radical conception was, of course, rooted in socialist doctrine. It was also a response to the historical inability of the Greek bourgeoisie to transform the productive base of the country. It, therefore, placed a major emphasis on alternative modes of control of the production process, and it projected the role of the state as the focus of that control, although not as the exclusive agent of production in society. As was mentioned already, private enterprise would not be excluded on principle, but the development impetus would be driven primarily by social agents, rather than private ones.

From the perspective of the Right, the role of the state was less clearly defined since industrialization itself was not as unequivocally championed as it was on the Left. One clear element of right-wing perspectives was, of course, that the state should not displace, but rather bolster, private property. For those who nevertheless propounded industrialization, there seemed to arise the question of the state role which would not challenge the prevailing distribution of wealth, but which, at the same time, would channel the use of resources in a desired fashion, even against the wishes and the inclinations of the domestic propertied classes. The solution to this dilemma was to be found in a dual role of the state. On one hand, the state should orient its strategy to the procurement of foreign resource flows (e.g., aid funds in the initial period, foreign capital later) which would provide a pool of investible funds outside the immediate control of local wealth owners. On the other hand, the state should institute regulatory mechanisms which would ensure productive investment and economic growth from the domestic allocation of resources.<sup>19</sup> Perhaps the most characteristic difference in the right- and left-wing perspectives about the role of the state was that, at the level of economic management, the Left envisioned the state as an agent and partner in the process of production; whereas the Right projected the role of the state as an agent which would primarily operate as a procurer and allocator of financial resources and as a regulator of incentives for private producers. Thus, from a lateral

<sup>19</sup> An elaborate statement on the role of the state and its economic intervention was offered, for example, by the then Governor of the National Bank of Greece, who must have been representative of mainstream thought on the subject. See G. J. Pesmazoglou, *Directives for Economic Policy* (Athens, 1950), especially pp. xix-xxvi.



viewpoint of broad sectors of economic activity, one view projected the state squarely in the "sphere of production," whereas the other envisioned its operation mainly in the "sphere of services." The anti-communist state which would emerge from the civil war would be accordingly not a "producing state" but a "procuring and regulating" state. This was to be verified in the long-run trends observed in post-war Greece, where the public sector kept growing in terms of its share of control of national income far more rapidly than in terms of its share of productive activity.

*Economic Intervention: The Scope and the Limits of the Uses of Aid*

A few months after the announcement of the Truman Doctrine and the completion of the Porter Report, a large U.S. mission was established in Greece to administer aid. The agreement between the U.S. and Greek governments vested the American Mission for Aid to Greece (AMAG) with wide powers over policy in Greece. In effect, the AMAG wielded powers that would normally belong to the national government. Its views were decisive and virtually binding on matters of military and economic policies. Its control over aid resources made this power credible and effective. Government priorities, the design of institutions and policies, and even the composition of the Greek cabinet were, for practical purposes, within the purview of the American mission.

At the initial stages of AMAG operation, the Porter Report findings and recommendations were the guiding documents of U.S. intervention. Since the AMAG was set up as a mechanism for administering U.S. aid to Greece, its fundamental concern was to oversee the most effective use of the funds from aid. Since the funds from aid formed the bulk of publicly available resources within the country, their effective use necessitated an exercise of control over practically every aspect of public policy. This requirement was all the more pervasive because of the "activist" stance taken by the AMAG since the very beginning of its establishment in Greece, on matters of economic policy. Following the recommendations of the Porter Report, and invested with a sense of urgency about the integrity of the Greek anti-communist effort, the AMAG assumed a "hands-on approach" to the country's economic management. Compared to the modes and practices of British intervention in *economic matters* (as opposed to military ones), U.S. practice was far more direct, penetrating, and persistent.<sup>20</sup>

<sup>20</sup> American experts were placed directly within the Greek bureaucracy and could participate in policy making at the top levels. See Lawrence Wittner, *ibid.* chap. 6. See also A. A. Fatouros, "Building Formal Structures of Penetration: The United States in Greece, 1947-48" in J. O. Iatrides, ed. *Greece in the 1940s*, pp. 239-58.

The primary legal mechanism which underpinned this practice was the power over disposition of the "Counterpart" Fund. This fund was formed as follows: For every item of aid which was shipped from the U.S. to Greece, the Greek government would deposit in the fund the equivalent monetary value in local currency (drachmae). The sum of these deposits would thus represent a local pool of monetary resources which would be directly linked to flows of material aid. The disposition of these resources was under the control of the AMAG. One prescribed use of the fund was to pay for the local expenses of the U.S. mission itself. Aside from that, the fund could be (and was) used for covering budget deficits of the Greek state, local military expenditure, direct relief and welfare expenses, reconstruction works, and even development projects. The ways in which the fund was used would obviously reflect immediate needs and priorities, but there was a fundamental macroeconomic aspect to be considered, and this was continuously invoked by AMAG. A large portion of the material aid flowing into Greece did not constitute traded goods (within the country); for example, military material and equipment, food and clothing supplies for refugees, medicines, etc. were items which were directly distributed to users, not sold. The release of corresponding counterpart funds into the economy would, therefore, generate *additional* monetary incomes and demand, and this would, in turn, add large inflationary pressures to already existing ones if the economy could not gear up to satisfy that additional demand. Another possible effect of the creation of additional monetary incomes would be an increased demand for imports, and this was another danger area since the country's balance of payments was in a deplorable state. Therefore, the management of the fund had to be subject to the constraints of overall macroeconomic policy and specifically mindful of the inflationary consequences, on one hand, and of balance of payments pressures, on the other, arising from its use.<sup>21</sup>

It should be clearly realized, at this juncture, that an "unwise" management of the counterpart funds, which would exacerbate either the problem of local inflation or the balance of payments deficit, could end up setting in motion a *vicious circle in terms of aid*. This is rarely explained in explicit commentary of the period, and it is a central item for understanding the modalities of U.S. economic policy in Greece, as well as illuminating a more general problem of foreign aid economics. Let us recall that the situation which prevailed in Greece at the

<sup>21</sup> Statements pertaining to these constraints are pervasive in U.S. Mission documents and reports. For a definitive view, see Economic Cooperation Administration, *Greece: Country Study*, (Washington, D.C., 1949), especially parts 1 and 2.



time of the U.S. mission's arrival was characterized by both rapid price inflation and a large external deficit. But this was *not* the crucial element which threatened the creation of a vicious circle of aid. *The crucial element was that there were mechanisms in place which allowed relatively unimpeded conversion of domestic monetary incomes into international values.* The early relegation of imports to private interests, and the lack of effective import controls implies that monetary incomes realized, especially by the domestic upper class, could quickly find its way to consumer imports, and as Porter had already deplored, these tended to have a high content of conspicuous luxuries. On the other hand, the gold policy which had been instituted under the London Agreement, and which continued in effect until the autumn of 1947, allowed, equally, the effortless conversion of domestic monetary incomes to gold stocks, and even the export of capital in that form. Due to both mechanisms, a hypothetical expenditure of counterpart funds could end up being converted to luxury imports or gold and capital export in large proportion. This would worsen the external payments position of the country and would necessitate additional aid, which would again feed enlarged imports and gold hoarding, and so on, to a vicious circle. On the other hand, this phenomenon would delay the improvement of local production capabilities and, therefore, the potential for domestic absorption of new monetary incomes would continue to lag; the propensity to import or hoard would be reinforced from that side too.

In the context of the obvious danger of falling into such a vicious circle of aid, the AMAG formulated its policies accordingly. One fundamental principle was that counterpart funds should be used with great caution, almost to the point of stinginess. A recurring theme in the utterances of U.S. policy-makers in Greece, all the way to the early 1950s, would be the need to curtail development programs and expenditures because of inflationary and external payment constraints. As overruns, both in military and civilian expenditures of government, seemed to be the rule of Greek political realities (which the Americans did not seriously challenge), the developmental uses for counterpart funds had to bear the burden of macroeconomic stringency. As a result, the general observation, from the period of direct American intervention in Greece, is that *the development agenda, which was initially projected at the time of the Porter Report, would end up being continuously compromised and adjusted downward.*

The most prominent example of that pervasive tendency was furnished by the development program put together in late 1948 through the joint efforts of the Greek government and the Economic Cooperation Administration mission to Greece (which was constituted under

the Marshall Plan, and had succeeded the AMAG installed under the Truman Doctrine). The program formed part of the European recovery effort undertaken and financed by the Marshall Plan. It was a four-year program which would extend from 1949 to 1952; that period was the mandated time frame of the Marshall Plan and the European Recovery Act. Before discussing the program itself, it is pertinent to note that this was the first formulation of a development plan which had been accomplished by a Greek government since liberation. It was also critically dependent on the institutional framework of the Marshall Plan in two ways. First, the Marshall Plan made commitments of aid *over a period of time*, whereas the Truman Doctrine promised aid on the basis of year by year evaluations and Congressional appropriations. Thus, as a framework for development, the Marshall Plan was much more conducive to long-term planning. The Truman Doctrine, which had preceded it, was much more bent on immediate political-military priorities which, of necessity, left the developmental desiderata as residual items in the economic allocation of aid. Second, the Marshall Plan framework was one of European proportions (West European, to be exact), and specific country programs for development had to be coordinated on a European scale. The instrument of that coordination was the Organization of European Economic Cooperation (OEEC), to which the Greek program was also submitted in late 1948.<sup>22</sup> A fundamental implication of this element of international coordination was that country programs had to complement one another and not push for conflicting development objectives or allow inordinate duplication of effort and activities.<sup>23</sup>

The Greek program for reconstruction and development, as it was formulated in 1948, reiterated the basic principle of the Porter Report, which was that simple reconstruction of the prewar economy was not a satisfactory goal and that a large development effort was warranted. The reconstruction and extension of infrastructure, the rehabilitation of agriculture through land improvement and irrigation projects, the development of electric power generation, and the enhancement of old and new industrial activities were primary targets of the program. In fact, comparing the broad outlines of the program to the original recommendations of the Porter mission, one easily realizes the former represented a quantitative elaboration of the latter, so far as reconstruction

<sup>22</sup> For an extensive description of the economic mechanisms and the coordinating role of the OEEC, see Immanuel Hexler, *The Marshall Plan Revisited* (Westport, CN., 1983).

<sup>23</sup> An analysis of the implications of such investment coordination for a country of Greece's level of development, and in the context of immediate postwar conditions, is presented in Stavros B. Thomadakis, "Stabilization, Development," sect. C.



and development were concerned. Thus, it is fair to say that the development agenda which was implicit in the original enunciation of the Truman Doctrine became fully explicit in the 1948 program.

This observation is of some importance with respect to the interpretation of changes in attitudes and policies of the American mission to Greece. The argument has been made, for example, that the political orientation of the American mission had hardened along increasingly conservative lines in the course of 1948 and that, as a result, the more ambitious schemes for development propounded by "new dealers" like Porter were eventually abandoned.<sup>24</sup> On the level of everyday mission policies, this appears to be an accurate assessment; however, on the grand scale of development policies, the 1948 program was quite congruent to the formulations of the Porter mission, as we said. The fundamental reasons for the fact that no such program had been developed earlier, as well as the causes of the eventual demise of the 1948 program itself, were critically related to causes that went beyond the basic political outlook of American advisers. But I am running ahead of my story!

The estimated cost of the 1948 program was enormous. Over the four-year period of program implementation, the total spending was projected to be \$1.06 billion, of which \$592 million would be foreign exchange expenditures and \$465 million would be drachma expenditures. In order to get a sense of orders of magnitude, we should note that the Greek national income in the years 1949-51 averaged \$1.7 billion per year, and, therefore, the projected expenditures would come to roughly 60 percent of a year's national income and the projected drachma expenditures alone would amount to about 25 percent of a year's national income. On another scale of comparison, total aid to Greece from all sources in the period 1944-48 had been estimated at \$1.2 billion.<sup>25</sup> Thus, the program for reconstruction and development would require, over the period 1949-52, an almost equal amount of resources as had already been provided for aid over the previous four years, over and above aid needed for current consumption requirements.

The implementation of the program met with very limited success. Although some program areas, such as reconstruction of communication facilities (roads, bridges, ports) were vigorously pursued, no doubt because of their military importance as well as their civilian uses, most areas of development investment lagged badly. This was due, on one hand, to the fact that expenses for current consumption kept running

<sup>24</sup>Wittner, *American Intervention*.

<sup>25</sup>Economic Cooperation Administration, *ibid.* pp. 11, 28-35.

ahead of forecasts and absorbing a larger than predicted proportion of aid funds and, on the other hand, to "uncooperative Greek behavior," which meant that Greek capital was persistently refusing to take part in the development effort. We will come back to the latter problem at more length in the following section. As things turned out, the 1948 program was revised downward in early 1950, with its total projected expenditures cut roughly to 60 percent of the 1948 forecast, and was virtually abandoned as a coherent framework of action in 1951.<sup>26</sup> It should be noted, in this connection, that, since the military conflict of the civil war had ended in the course of 1949, the revision of 1950 and the abandonment of the program in 1951 occurred in the context of a "pacified" Greece in which the anti-communist state had triumphed. Thus, one could hardly discover the causes of the dissipation of the development program in unforeseen military emergencies associated with the civil war.

The progressive dissipation of the development agenda which was initially projected under the Truman Doctrine implied that, eventually, the policies and goals of the U.S. economic mission to Greece were oriented to current management or, as it was called at the time, "current maintenance" of the economy. Inevitably, as development activities receded to the background of policy priorities, stabilization of the economy, in terms of anti-inflation measures and balance of payment rectification, continued to hold the center stage. Without large development initiatives, economic policies were de facto leading to the reconstitution of an economy which, in broad structural terms, would not differ much from the prewar one. Notably, this meant that U.S. economic policy in Greece would eventually come around to the precepts of British economic intervention in the mid-1940s. One of the reasons for which the U.S. could initially project a more ambitious economic agenda for Greece was, as we mentioned, the fact that the U.S. faced a much less stringent resource constraint than Britain. Yet, by the early 1950s, and as the civil war ended, the resource constraint of the U.S. was being tightened, due to the rise of other priorities. Furthermore, the use of superior U.S. resources through the period 1947-51 had not managed to eliminate the mechanisms which could feed the vicious circle of capital reexport and hoarding on the part of the Greek bourgeoisie. This was, perhaps, the more fundamental cause of the eventual dissipation of developmental ambitions. This was also certainly the determinant of the modes and instruments of economic intervention which the

<sup>26</sup>B. Sweet-Escott, *Greece: A Political and Economic Survey, 1939-53* (London, 1954), pp. 108-18.



U.S. mission established within Greece, and which left a permanent institutional imprint on policy structures for many years.

*The Instruments of Economic Intervention: "Covert Planning"*

One of the most publicized and insistent elements in the platform of the Greek Communist Party and the broader Left was the need for national economic planning after the country's liberation. The basic justification for this was that the process of economic recovery and the task of industrialization could not be entrusted to the Greek "economic oligarchy" which had never managed to develop the country and which could not champion popular interests. This thesis was, of course, repugnant to right-wing circles, and the whole idea of planning became tainted with a mantle of polemics against private property. As a result, the succession of anti-communist governments which wielded power in Athens did not only reject the substance of planning, but also avoided the terminology itself. They would speak mostly of "programs," "policies," "priorities," or "coordination" but rarely, if ever, of a national economic plan.<sup>27</sup>

The commitment to private property and to a "free" economy (as opposed to a "planned" economy) was not only the centerpiece of the ideological makeup of the Greek Right. It was also a fundamental principle of the United States government and the AMAG. Thus, on the ideological plane, there was no discrepancy between the U.S. and its social allies in Greece. A serious dissonance emerged, however, in the area of economic practice. As we saw, the precepts of U.S. economic policy in Greece were to bolster the Greek economy so as to make it "self-supporting," i.e., to rid it of the need for outside aid. Part of the task involved stabilization. Another part involved development and industrialization. As we also suggested above, there was the danger of generating a "vicious circle" of aid which would defeat the objective of a "self-supporting" economy, and this imposed stringent macroeconomic management which eventually overwhelmed and compromised the ambitious development aspects of the economic agenda. Even the narrower goals of stabilization and reestablishment of prewar production levels, however, were threatened by the possibility of a "vicious circle." For that reason, the activist AMAG instituted mechanisms and

<sup>27</sup>The reconstruction effort, which was the natural field for the application of planning, was administratively divided to the jurisdictions of a High Board of Reconstruction, the Ministry of Reconstruction, the Ministry of Coordination, and Y.S.E.S.A. the latter was (in literal translation) the Service for Coordination of the Implementation of the Reconstruction Plan. Its designation itself conveys the linguistic amalgamation of concepts and the bureaucratic disjointedness of the planning mechanism.

instruments of intervention which went beyond the general stringency of macroeconomic management. The two basic mechanisms which threatened to set in operation a "vicious circle" were to be found in the areas of foreign trade (the private import policy) and monetary management (the gold policy). Both enabled the transformation of domestic monetary incomes to international values. Accordingly, immediate steps, taken by the AMAG as soon as it was established in the autumn of 1947, were directed to these two areas: The freedom of private imports was suspended and plans were announced for the formation of a Foreign Trade Administration. The policy of open market gold sales was also suspended, and a plan of market transactions in "exchange certificates" was instituted. The rapid enunciation of these measures, literally at the stroke of a pen, were, no doubt, dictated by the economic emergency itself, but also by the desire to give a signal about the forcefulness and the decisiveness of the AMAG's *modus operandi*.

The Foreign Trade Administration was designed as a department of Greek government structure but was headed by an American. Its main purpose was to place imports under control, both in terms of their composition and in terms of their total amount. The principal means by which the Administration would pursue these goals would be a system of import licenses provided to private importers for specific categories of commodities and values. Thus, the Administration would not act to abolish private import trade but rather to regulate its scope and choice of operations. This combination of public guidance and private action was necessary in order to constrain the almost provocative procurement of imported luxuries in a country with rampant poverty and great needs for reconstruction. At the same time, the arrangement did not obviously violate the conceptual premise of "private enterprise," although it went as far as it could within its ideological limits to suppress and redirect all those "private initiatives" which were deemed undesirable in the specific situation. The installation of the regulatory machinery on imports was not painlessly enforced. Greek merchants voiced their opposition to it, and resisted its strictures. At least well into 1948, this resistance was taking the form of refusal to apply for import licenses concerning commodities which the Administration was pushing with high priority.<sup>28</sup>

It is interesting to note, in this respect, that the activist approach of the AMAG, on one hand, and the apparent recalcitrance of Greek

<sup>28</sup>U.S. Department of State, 868.50/4-2348, *Embassy Comments on Economic Progress in Greece*, April 23, 1948, especially enclosure no. 1 (Summary report of AMAG activities).



merchant capital, on the other, fueled differences of opinion within the apparatus of American policy makers. In a thinly veiled critical comment originating from the Athens U.S. Embassy, the AMAG (which was a separate organization with direct authority from Washington) was chastised for being too heavy-handed and too mistrustful of Greek businessmen. Noting that "Greek businessmen were not angels, but they were no better or worse than businessmen throughout the world," the comment urged a more coordinated approach and consultations with interested private parties before policy measures were announced and enforced.<sup>29</sup> The criticisms which the U.S. Embassy was voicing were one form of pressure for the AMAG to become more congenial in its ways vis-a-vis the "the realities of Greece"; in the specific context, this meant the nonadversarial accommodation of mission policies to the interests and aspirations of the domestic bourgeoisie, which was, after all, the political ally of the U.S. in the Greek conflict. Some accommodation did take place inevitably; in the area of import trade managed by the Foreign Trade Administration, it mainly involved the methods of implementation of trade restrictions. More importantly, however, the accommodation was evident in the area of monetary management and foreign exchange policy. On one hand, the "gold policy," which had been initially suspended, was reactivated in December 1947.<sup>30</sup> On the other hand, the plan for market transactions in "exchange certificates" was also implemented rapidly.

The "exchange certificates" were financial instruments which enabled the holder to purchase foreign exchange (pounds sterling and dollars, in particular) at the official exchange rates. Thus, they constituted "rights" to procure exchange which was traded in the market and commanded a price itself. Every time an exporter, for example, converted foreign exchange gained from foreign sales, he was given the drachma equivalent of his exchange at the official exchange rate *plus* an amount of exchange certificates corresponding to the amount of exchange converted. These certificates could then be used by the same exporter to purchase free foreign exchange for imports, or could be sold in the open market to somebody else who would use them for a similar purpose. Thus, the actual price of foreign exchange would be the actual price plus the value of the corresponding exchange

<sup>29</sup>Ibid. enclosure no. 5 (Trade and Commerce).

<sup>30</sup>The last quotation which can be found in monthly reports is a June 30, 1947 price of 135,000 drachmas to the sovereign. On December 1, 1947 a quotation reappears at 188,000 drachmas to the sovereign. The increase is almost 40% in a five-month interval.

certificate.<sup>31</sup> The scheme had three targets: First, to align effective exchange rates to "black market" rates. Second, to inject a degree of free use of exchange by exporters into the system, thereby stimulating exports, and matching export receipts to import payments. Third, to channel speculative hoarding away from gold and foreign exchange itself into the exchange certificates. Although the available data do not allow us to judge the extent to which those targets were fulfilled, it is only possible to ascertain that the pressure of speculative hoarding in the form of gold sovereigns was hardly reduced. Open market sales of gold would persist into the 1950s and would continue to register the collective fears or calculations of the wealthy classes at times of heightened uncertainty.<sup>32</sup>

Underpinning the gold market, the black market in foreign exchange, and the unifying import tactics of private merchants was a fundamental characteristic of behavior which the Americans would recognize and deplore throughout the period of their direct intervention in Greece: It appeared that Greek businessmen, merchants, industrialists, and other owners of wealth were not, as a class, cooperating in the task of reconstruction and in the need to reestablish normal conditions of production. They were bent on hoarding, speculation, capital export, and illegal trade, when possible. *Although politically and ideologically these were the principal allies of the U.S. within the Greek social formation, they did not behave as its economic allies.* The premise of the Truman speech to Congress about "healthy forces" waiting to carry out Greece's path to economic progress foundered in the face of the unruly and destabilizing behavior of the Greek bourgeoisie. It was this behavior which threatened to institute a vicious circle of aid.<sup>33</sup> It was also this behavior which prompted the Americans to seek ways to institute in Greece mechanisms which would accomplish, within the ideological confines of the anti-communist state, what the communists were insisting on accomplishing outside it: *establish power over economic management and accumulation outside the immediate control*

<sup>31</sup>As an example, the official parity to the pound sterling in October-December 1947 was fixed at 20,000 drachmas. In the same period, sterling exchange certificates traded for an average of 5,240 drachmas, thus bringing the exchange rate to 25,240 to the pound. See Bank of Greece, *Monthly Statistical Bulletin*, (various).

<sup>32</sup>Authoritative testimony about continuation of hoarding and speculative behavior after the end of the civil war is offered by the then American member of the Currency Committee. See John W. Gunther, *Report on my Activities as American Member of the Currency Committee* (Athens, May 15, 1951).

<sup>33</sup>I have suggested elsewhere that what constituted a vicious circle from the vantage point of U.S. authorities could in fact represent a rational strategy for Greek owners of wealth. See Stavros B. Thomadakis, "Stabilization, Development," sect. F.



of the Greek bourgeoisie.

The ideological confines of the anti-communist state did not permit institutional solutions which trespassed on private property relations, nor did they offer sanction to nationalization of private enterprise. At the same time, the need for a form of national economic control had to be fulfilled. The function which readily offered a solution to this dilemma was to be found in the field of money and credit. Three basic conditions made this choice inevitable. The first was that Greece was suffering from an objective capital shortage which was reinforced by local gold hoarding and capital export. Fresh capital made available to the economy came, therefore, almost exclusively from aid resources, and the providers of these resources were in a position to monitor and channel their use without encountering forceful political opposition. The second reason was that a primary institutional mechanism for credit control was already established at the time of the London Agreement, i.e., the Currency Committee, and this mechanism had gained political acceptance in Greece by the time the American mission arrived. The third reason was that control of money and credit could operate as a tool of enforcing production and investment decisions in desired directions without, at the same time, challenging the formal prerogatives and the legal construct of private enterprise.

Initially, and under the London Agreement, the Currency Committee had been conceived as a mechanism of control over the money supply. Its mandate had been limited to a period of eighteen months. Under the auspices of the AMAG, the role and the period of operation of the Currency Committee were greatly expanded. Law 588, enacted in the spring of 1948, prescribed these expanded functions. It enabled the Currency Committee to exercise quantitative and qualitative controls over all loans granted by commercial banks either out of their own funds or out of funds provided by the Bank of Greece. Quantitative controls were essentially sectoral allocations of credit to particular uses. Lending to trade was excluded, for example. Lending to industry was only permitted if the prospective use was to cover rehabilitation costs or working capital requirements for expansion of production. In order to exercise effectively these controls, the Currency Committee was enabled by Law 588 to monitor closely and continuously the operation of commercial banks. The essence of quantitative controls was a rationing function which presumably matched the immediate priorities of the economy. Qualitative controls, on the other hand, were a much more penetrating device. Their main purpose was to ascertain whether the loans granted would be used for the stated purposes, rather than for speculation and gold purchases. In order to exercise this type of control, the Currency Committee was enabled to scrutinize loan

applications case by case, as the need arose, and reject them outright or impose terms.<sup>34</sup>

In a move parallel to the reinforcement of the Currency Committee, the AMAG pushed and enacted, also in the spring of 1948, an agreement for the provision of long-term loans out of counterpart funds. These would be directed to agriculture or industry and would be controlled by a Central Loans Committee (CLC) whose structure and mode of operation were very similar to those of the Currency Committee. In the course of 1948, the CLC granted loans of about \$4 million. By the end of 1952, a total of \$36 million would be used for loans out of counterpart funds.<sup>35</sup> Two very pertinent aspects of the operation of the CLC are worth noting. The first was that, according to the initial agreement, loans would be channelled to final users, not by all banks, but exclusively by two institutions: The Agriculture Bank of Greece in the area of agricultural loans, and the National Mortgage Bank in the area of industrial loans. Thus, not only was the effective function of credit allocation and loan selection being vested in the CLC, the range of financial intermediaries was also restricted. Traditionally, the Agricultural Bank had indeed monopolized farm credits. Industrial loans, however, were not similarly restricted before the war, and the move to make the National Mortgage Bank the sole executor of these transactions signalled a decisive departure from prior practice, and was interpreted as a gesture of mistrust of other banks, and especially that bulwark of traditional financial power that was the National Bank of Greece. The second pertinent feature of CLC operation was the concentration of industrial loan recipients to a very small group of established industrialists who controlled large plants within the country in a variety of sectors, and among whom the primary beneficiary was Greece's most eminent industrialist, Bodosakis, whose interests extended in chemicals, fertilizers, armaments, and mining.<sup>36</sup> Thus, the concentration in terms of a financial intermediary for industrial loans was matched by a concentration of the agents of prospective industrial investment.

<sup>34</sup>This procedure reduced the commercial banks to simple conduits of loan applications and monitoring mechanisms for the fulfilment of the terms of loans. Bank resistance to this reduction of flexibility created, however, problems of control for the Currency Committee. See Gunther, *Report*, pp. 6-8.

<sup>35</sup>Wray O. Candilis, *The Economy of Greece 1944-66*, (New York, 1968) Table 21, p. 54.

<sup>36</sup>Kenneth M. Crawford (ECA Mission Loan Adviser), *The Greek Recovery Loan Program* (undated in U.S. Department of State files, National Archives). See also U.S. Department of State 868.50/6-2449, *Industrial Loans* (Memorandum from William K. Rountree to the Ambassador) for a description of the degree of concentration of loans to a few industrialists.



The nexus of control and regulations built around the Currency Committee and the CLC was pervasive and complex in comparison with the prewar regulatory machinery wielded by the state over the economy. It would also prove to be a long lasting structure which mediated many of the crises and the successes of the Greek economy in the postwar years. It suffices to note that the Currency Committee (whose operation and composition underwent several changes in the meantime, naturally) was abolished only in 1982.

Many commentators on the Currency Committee and its activities have noted its overt character as a mechanism of monetary regulation and credit rationing.<sup>37</sup> In effect, however, it was more than that: It was a mechanism of economic planning, except that this planning was never admitted as such. It was "covert planning." The functions which were centralized at the hands of the Currency Committee (and the CLC) were truly planning functions. They attempted to match general macroeconomic targets with targets at the sectoral, and even the enterprise, level. They attempted to allocate social savings and guide production and investment decisions to gain the targets. They attempted, at a more fundamental level, to mold the behavior of banks and enterprises to conform to goals and priorities, and they had the power to monitor behavior and to impose sanctions for deviations. I do not know that a full-fledged planning agency does much more than that. The prestige, the power, and the aura of technocratic "objectiveness," which made up the social image of the Currency Committee, were also commensurate to the authority that a fully legitimized planning agency would command.

The establishment by the U.S. mission of a powerful mechanism of "covert planning" which embraced foreign trade, money, credit, and investment was a response to an objective need. This was the same objective need that the Left had recognized. But under American auspices and under the political exigencies of the anti-communist state, the planning function would never directly venture into the sphere of production. It would seek indirect ways of shaping production outcomes. Credit was elevated to the primary means of this indirect penetration. The concentration of investment loans to a handful of industrialists was also a symptom of the same underlying tendency. They constituted a small enough and powerful enough group to act as agents of "covert planning" and to counter by their potential or actual monopoly power the more elemental impulses of their class which were destabilizing the economy.

<sup>37</sup>The standard treatment is given in D. J. Halikias, *Money and Credit in a Developing Economy: The Greek Case* (New York, 1978). This is the best source for the entire characterization of postwar credit policies in Greece, and the analysis of the effects of regulation, as it was implemented by the Currency Committee.

The intimate links which were forged by this "covert planning" would tie the state to the financial sector and to large industrial enterprises in a controlling nexus of economic power, and would persevere long after the American mission had departed from Greece. Throughout the postwar era, and irrespective of the general fortunes of the Greek economy, this mechanism of "covert planning" would remain confined, however, within the limits prescribed for it in the late 1940s and would never gain full command of the economy. It would strive to maintain the forms of a "free enterprise economy" and would defend the social legitimization of private profit. This basic underpinning of the system was also its basic weakness, since the prescribed primary agents (i.e., banks, large industrial firms) would always seek ways to enlarge their profits, as they should, by actions that contravened the planning intentions of the Currency Committee. Thus, there would always be problems of control and "leakages" from stated targets. Furthermore, outside the nexus of economic power formed by the state, the banks, and large industrial firms, there were always large agglomerations of economic units which did not reap the benefits of direct participation in the system of economic power but which were also not fully within its control. Thus, "covert planning" had, at the best of times, gained only partial command of the economy. Nevertheless, it is not farfetched to say that stabilization and growth in the 1950s and 1960s would reflect the social ascendancy and the coherence of this nexus of economic power. In even later years, the crisis of the Greek economy would be mediated by the growing disarticulation and internal ruptures of that same nexus under the pressure of external and indigenous shocks.