

PLANNING AND ECONOMIC DEVELOPMENT IN GREECE¹

The purpose of this study is twofold: to analyze the role of planning in the economic development of Greece, and to examine, in this connection, whether agriculture or industry should receive priority. In the first part I will investigate the relationship of planning to economic development. In the second part the economic achievements of Greece will be reviewed, first, prior to 1939, and second, following 1950, i.e. after the termination of the guerrilla war. Finally, the last part will attempt to answer the question whether agricultural development or industrialization should be preferred.

PART ONE

A

Before studying the relationship of planning to economic development, I should first analyze the two terms.

Generally speaking, by planning we refer to the preparation of a plan which will aim to fulfill certain objectives to be reached. Accordingly, we may speak of planning in the framework of the household or of the public sector, in consumption and in investment. In all these cases those responsible or interested discharge their economic activities according to a plan which is formulated on the basis of what is available or is expected to be available, and on the basis of future needs according to forecasts, whenever the latter are feasible. Naturally, the longer the time for the fulfillment of the plan the greater the need for revising the forecasts. In order to achieve greater flexibility it is necessary to provide for safety margins. The cost involved should not be disregarded, both at the time of the formulation of the plan and at the time of its execution. In principle, whatever would result in higher costs than the expected utility, should be

1. This paper is the author's report to the 1960 Athens Conference of the Greek Economic Association. In the present translation developments until the end of 1960 have been considered. The author thanks the President of the Association for permission to translate and publish it here.

avoided. Of course, the estimated costs and the expected utility are based on different criteria in the various cases.

In this article I refer only to government planning and to macro-economic developments. Consequently, the plans of the households, of the firms and of the public corporations will not be considered. All these integrate their plans and activities in the framework of the government's plan, either because they find it to their advantage, or because they are compelled to do so by law. Compulsory integration may take many forms, but I shall not deal with them here.

Whenever the government prepares a plan it is anticipated that the households, the firms and the public corporations will act in accordance with government directions. The government should take into consideration : a) the economic aspect, namely, the increase or diminution of the national income to be expected from the plan's realisation and the relation between anticipated cost and anticipated utility, b) the political aspect, namely, the impact of the plan on the general political situation, c) the social aspect and d) the moral aspect.

The preparation of the plan and its adjustments in order to cope with changes which become necessary, are more difficult whenever private initiative is not substantially restricted. Even when this occurs, serious difficulties arise since the economy shows a continuous process involving many unforeseen developments. Naturally the preparation of the plan is based on the latest known data referring to a period of equal duration with the one covered by the plan. Two elements should always figure in the plan, namely, what will be available and what will be needed. The latest known data should naturally be adjusted so as to take into consideration the technological progress, the increase or diminution of population, the development of production and living conditions, natural and political events. It may be easily, therefore, understood how necessary it becomes to have safety margins at home or abroad. Stocks abroad are to be considered only if it is possible to pay and to carry them. Consequently, relatively small needs of small economies — as distinguished from large needs of large economies — may be satisfied easily, causing eventually minor disturbances in the world economy. Not only consumption and investment but, also, maintenance, export and safety margins for unexpected events should be considered in the plan. It is not enough that their total equals what is anticipated. Actually the comparison should be done by goods, or by categories of goods. Formulating an economic plan becomes more difficult when its main objective is economic development and not simply the natural growth of the economy on the basis of the available data.

B

Economic development appears whenever there is a sufficient growth of real income in order to raise the available per capita income, improve the living conditions of the people or increase investment. Such development appears always in the expansion phase of the business cycle, and occasionally, in the contraction phase, but in the latter case at a much slower pace. These observations apply similarly to the household, the firm, the public corporation and the national economy. However, when we speak today about economic development we usually refer to the increase either of the national income, or of investments, or of both, at a rate faster than the case would have been without government interference or support. Government interference may aim at raising the national income by either increasing investment or intensifying production through increased employment, more rational organization, improved maintenance, or reduced cost; the latter may be achieved by additional external economies or by better trained employees. Government interference may simply aim at increased investment in general, or, as it is more customary, at increased investment in particular sectors of the economy or in certain areas only. The latter occurs when the creation of new centers of economic activity is the aim of the planners, even though in such cases the real national income, or the real per capita income may decline for a span of time, or just interrupt its steady growth. Government interference may also aim at increasing employment, raising the assets or reducing the liabilities of the balance of payments eventually with similar results — as outlined above — for the real national and per capita income.

These government objectives may be coordinated or classified according to needs and to conditions. Economic development will be used in this paper to refer to government support of the economic activity in order to raise the available real national income. Consequently, economic development will not refer to the government's efforts to increase investment, employment and the assets of the balance of payments, unless the latter could be related to an increase of the per capita income which is considered by the man in the street as satisfactory. One who believes in liberty and in the need for raising in this generation the living standards of all strata of the population, cannot subscribe to the view that the attempt to create or expand production of certain categories of capital goods without increasing the real national income, constitutes a genuine economic development. Actually this would have no foundation in Greece following the statement made by the Greek Prime Minister to the governing board of

the Association of Municipalities and Communities (Cf. "Kathimerini", October 25, 1959).

Particularly in non-communist states economic development depends considerably on the activity, shortcomings and zeal of all the citizens of the country, who are neither public servants nor employees of public corporations. Accordingly, we cannot speak of these countries in terms of economic development by taking notice merely of the achievements of the public sector. These achievements may be hampered by the reaction of those who do not participate in the government's economic activities and who fear, rightly or wrongly, that they will not be duly compensated for their efforts. If they decide to work less, it is probable that the result would be economic regression rather than economic development. In communist states the government's efforts in the field of investment will yield the hoped-for results only if the basic economic principle is applied in the utilization of the new plants. To achieve this, perfect internal organization of the public corporations, satisfactory cooperation between them, eager contribution on the part of the employees, prompt anticipation of requirements, prompt placement of orders, quick transportation, thorough utilization of available plants and by-products and last but not least, anticipation of unexpected contingencies through appropriate safety margins are needed. Communist countries do not usually revert to such measures in their economic development policy, as testified by the frequent appearance of bottlenecks. These bottlenecks are overcome there by measures which cannot be enforced in non-communist countries. As an example I may refer to the fact that payments on the Soviet public debt were suspended for 20 years, that paper money in circulation is frequently cancelled—more recently in Eastern Germany in 1958—and that, in various communist countries, certain goods would, at times, disappear from the market. These are instances of measures taken in those countries in order to smooth out the errors of miscalculation, insufficient execution and wrong adaptation of the economic development plans.

C

Section A dealt with the difficulties which appear in the formulation of an economic plan in general. It was pointed out that the difficulties are greater when the economic plan—on the micro- or macroeconomic level—aims at any type of economic development.

No economic development is possible without planning. It is even more needed when we refer to economic development as defined above. It

is true, indeed, that only on the basis of a plan, prepared in advance, can the government interfere for the purpose of either coordinating private activities, or urging the people to participate in certain actions and to abstain from some others, or of expanding its own activities and responsibilities. It is assumed that the government is better qualified than its citizens to apply, while preparing the plans, the basic economic principle within the framework of the economy.

The above statement must not be construed as advocating that economic development cannot be carried out successfully by individuals. The United States of America, to this day, Russia, from 1890 to 1913, and even Japan, prior to 1940, are some examples proving the thesis that economic development is possible on the basis of private planning, although in the case of Japan one may argue that to some extent there was government direction. Economic development under private planning halts, or rather, is substantially weakened during the contraction phase of the business cycle. On the other hand, the increased national product, as a rule, is not allocated in the most ideal way. Also, individuals and private firms usually tend to act in accordance with the basic economic principle from their own point of view, in contrast usually to the actions of government agencies and public corporations. Whether this attitude is to the interest of the public as a whole or not, depends on each individual case. In the United States, for example, it has fully succeeded.

When economic development follows the course of a government plan, the influence of the cycle is weaker, although it cannot be totally neglected. That would have been precisely the case were the economy nationalized on a scale not even yet reached in China. Government planning is necessary in external economies, since investment in this field presupposes the conclusion of concessionary agreements. Consequently, the question is not whether planning will be used for economic development, but, first, whether planning will be undertaken by the government or by individuals and to what extent, second, whether it will be viewed from the microeconomic or the macroeconomic aspect, or third, whether the long or short range results will be decisive. Another problem is who will assume the responsibility to supervise its application and to apply the changes which may become necessary. Also it has to be settled who will be responsible for the distribution and the allocation of the increased national income to result from economic development.

1. I do not intend to be involved in an endless argument on whether economic development should be undertaken by the government or by the

people. I will examine only which of the two is more advantageous from the point of view of economic development. It has already been stated that the government is in a more favorable position than the individuals to plan the economic development within the national economy on a long-term basis. In this light it appears that the planning of economic development by the government is preferable. This is not necessarily true, unless the government is able to do the planning. Sometimes, persons without a thorough training in economics may believe that planning economic development refers simply to preparing a list of investments and a rough estimate of costs to be incurred. It was under this impression that plans for economic development were prepared in Greece, in 1948 for example. In a long article published in Greek in the *Economic and Political Science Review* (1949, pp. 165-181), I expressed my views on the subject. On the other hand, others believe that in planning economic development it is sufficient to consider certain investments without examining however how they will be carried out at taxpayers' expense with the frictions and repercussions involved, how the persons affected will react, or without realistically finding out how the inhabitants of the country will participate in the realization of the government's efforts toward economic development. The planners who act on this presumption do not even examine the way to overcome any adverse reaction on the part of the inhabitants of the country or how to replace private with government initiative, in the event the former fails to materialize, or even how to change, if necessary, the form and objectives of the plan so that the main task, i.e. the economic development of the country, is attained. Occasionally, the planners fail to provide for margins of error which will help to solve any bottlenecks or unexpected contingencies. The problem of the choice of those to run the new projects when fulfilled is separate because if those necessary cannot be secured, the application of the plan should be dropped even though, in theory, it would have been beneficial to the economy of the country. However, the chances for securing those required to run the new projects are much greater than they initially appear, even though if for political reasons, the possibility of turning to foreign firms is excluded.

2. It does not seem possible to fix a general rule about the way decisions have to be taken in settling the various points involved in economic planning. The choices between, first, the short-term prospects, second, the microeconomic or the macroeconomic aspects, third, the volume of the required investment or the expected yields have to be considered and coordinated. It would rather seem that in each plan of economic develop-

ment an attempt should be made to examine on the basis of the above criteria what offers the best advantage or the least disadvantage. This, of course, is a question for the political leaders of the country to resolve by taking into consideration not only the economic view but other aspects as well. Concurring to the choice of the short-term view is the desire to raise instantly the national income, or, at least, that part of the national income which is allocated to certain needy segments of the population. The long-term view is favored when the solution adopted does not endanger either the actual living conditions of the people, or their gradual improvement and when a substantial growth of the national income is expected by a method which requires a long time and which, when achieved, will assist in the realization of other important objectives of economic policy.

In order to choose between the microeconomic or the macroeconomic solutions first, the amount of investment required for a particular purpose and, second, the yields anticipated have to be considered. The choice further will depend on the terms and on the possibility of securing the capital involved. If capital is secured by private firms or by public corporations more easily and on better terms than by the Treasury, the microeconomic solutions should prevail. The same solutions should be chosen if the yields foreseen in case of public investment are smaller than those expected from investments carried out by private firms or public corporations. However, when we attempt to draw a comparison between the yields from a given public investment and from an investment of a private or public corporation, our judgement should not rely solely on commercial results. Indeed, public investment secures, at times, considerable external economies. Those benefiting from them pay either nothing at all, or are asked to contribute substantially less than the real cost. Now referring to the capital cost of an economic development investment it is important to examine whether the capital will be secured at home or abroad, and in both cases from whom. If the running of the new plant is expected to save foreign exchange, the capital in order to finance the purchase of foreign equipment or the hiring of foreign specialists should be secured without hesitation from abroad, if in this way the cost is reduced. The supplementary receipts in foreign exchange or the cost of servicing the loan abroad should not be taken into consideration if foreign exchange and gold reserves of the central bank provide sufficient international liquidity to the country concerned enabling her to serve and to repay the loan as long as the cost incurred is reduced by having recourse abroad. Whether it is possible to turn to the central bank for financing economic development projects depends on a number of factors, such as the structure of

the economy, the monetary experience of the citizens of the country, the importance of unemployment, the degree to which plants available are used, and the shape of the balance of payments, this last factor to be considered in combination with the foreign exchange and gold reserves of the central bank. In general, the possibility of turning to the central bank for financing is small, except in countries with considerable foreign exchange reserves, such as Venezuela for example.

3. The government has always to control the execution of the plan for economic development and to take the necessary steps in order to carry out changes, whenever they appear necessary. Of course, it is taken for granted that the plan provides for projects of general interest, which according to law require the conclusion of concessionary agreements. The extent of the government's possibility to change the plans depends on whether the projects are financed by the Treasury, by private firms or by public corporations. Changes are very important, because no matter how well prepared the plan is, there always arise unexpected developments. Such developments may be caused by either the nature of the plan carried out or a change of the data on which either the plan was based, or on which the planners or the contractors based their original estimates. It is a rule now that the government finances directly or indirectly the plans for economic development. This explains better the increasing influence of the government. Even in cases where it does not undertake the carrying out or the running of economic development projects, it, nevertheless, undertakes to finance them, as was the case of the Greek Oil Refinery. Whenever a new-type project is planned in a given country, a foreign firm undertakes to prepare the plans on which the contract will be based. The firm should have specialized in this type of work and should command confidence that it will not be influenced or bought by those who oppose the project or are interested in magnifying its expenses.

Those who will supply the finance and the method of financing are determined in conjunction with the prevailing conditions. In the past it was customary that the financing, construction and running of the plant were assumed by one firm. The latter furnished the capital from its own funds or from a loan contracted for the purpose. The loan was occasionally secured by the government's guarantee. This additional guarantee is not required when the contractor is trusted. After the Second World War, it became the rule rather than the exception that the government would secure the funds for the financing of the projects. They may be secured from the current revenues of the Treasury, from loans subscribed by savers at

home or abroad, from local or foreign banks and from the central bank, provided such action does not threaten the balance of payments or does not cause other monetary disturbances. Also, the International Bank for Reconstruction and Development and the International Finance Corporation may make available such loans provided that the government involved has reached an agreement with its foreign creditors and pays its debts promptly. This way more favorable terms may be secured as far as the redemption period and the rate of interest are concerned. Also there are many cases in which the capital was or is secured through outright grants offered for political reasons by the United States and other governments.

4. Naturally, the government decides how to distribute and to allocate the additional income which will result from economic development. The government has the means to influence wages, prices and taxes in conjunction with the objectives sought. The methods and the way taxation will be enforced are purely political problems. It is evident that the government aims at getting the profits of the economic development projects for reinvesting them, while the public prefers to utilize them to improve its conditions of living.

The decision, which will be taken in this connection, will influence in many ways the economic development of the country. It may be believed that economic development can be accelerated by allocating the largest part of the profits derived from the economic development projects to the latter's further expansion. However, many times it so happens that, as a reaction, the will of the people to work weakens to an extent which may hamper further economic development.

PART TWO

In the second part I will examine what has been achieved in Greece in the spheres of planning and economic development. The first section will be devoted to the achievements prior to 1939, while the second will deal with those since 1950. I do not plan to write the history of the plans for economic development in Greece, for, I do not think that will serve a practical purpose. If that was the case I would have found myself repeating my critical analysis of the 1948 plan, to which I referred in Part One, Section C, paragraph 1. Consequently, in the first section of Part Two, I will concentrate mostly on developments in 1923-1939, because going further back will lead us too far into the remote past. The second section begins in 1950, as the guerrilla war was ended only in 1949. It should

also be noted that most of the efforts until 1951 were directed toward the reconstruction of the country.

I would like to observe that economic development does not refer to the increased output of existing plants which has resulted on account of their renewal and maintenance. These are just precious contributions providing for better facilities and for more conveniences to the people. Neglecting to do them would have resulted in deterioration of these plants, which should be carefully avoided, no matter if they belong to the government, private firms and individuals, or public corporations. Maintenance of roads, transportation equipment, boats, planes and real property cannot be construed to mean economic development. Neither their increased yield on account of their renewal can constitute economic development, even though, for political reasons, the funds provided for such purposes are referred as economic development funds in the budget or in the national accounts.

A

I believe that three major projects contributed to the economic development of Greece in 1923-1939. These are the settlement of the refugees, irrigation and drainage in Macedonia and the development of industry. Whatever else was achieved during this period, as for example the water supply system of the Athens area, or attempted, as for example the expansion of the railroad network of the country, should be included, I think, in maintenance and renewal.

1. The settlement of 1,250,000 refugees, mostly from Asia Minor, Constantinople, and Thrace was a remarkable achievement. Thanks to this, a great number of destitute people (only a small percentage was able to save its belongings) subsequently contributed very much to the economic progress and development of the country. Of course, the contribution of the Refugee Settlement Commission acting under foreign administration and financed partially by foreign loans should not be neglected. At the same time, the contribution of the Greek Government by placing at the Commission's disposal Crown land, the farms of those Turks and Slavs who left the country, as well as big expropriated farms formerly belonging to Greeks, should also be considered. By the proceeds of taxation and loans from the central bank, the government supplied the funds needed for completing the settlement of the refugees, since the foreign loans of 1924 and 1928 were inadequate.

The settlement of the refugees was coordinated with an effort to guide the farmers in farming and stock breeding in order to achieve increased production, a major innovation in Greek farm policy. Gradually the results of this policy became evident, as shown by increased per acre output. Many agronomists believe that the policy, which began to yield fruits 25 years ago, can continue to do so in the years to come. Model farms and livestock centers were and are extremely useful. Frequently, modern farming technics, taught to refugees, were adopted by the native farmers who tended to imitate whatever appeared to them worthwhile.

According to various estimates, including that of the late Professor A.M. Andreades, the settlement of the refugees cost 75 million sovereigns, whose purchasing power corresponds today to twice that figure. This by no means is a small achievement, even if we subtract 16 million sovereigns, which were borrowed abroad. In addition to the economic benefits, the refugee settlement helped in solving the minority problem as the Slav and Turkish minorities in Macedonia and in the area of Evros in Thrace were replaced by Greeks.

2. The drainage of lakes and swamps of the Thessaloniki, Veroia, Serres and Drama plains, along with the attempt to divert the flow of the rivers in these areas and to secure adequate irrigation, constitute the biggest effort ever undertaken in Greece to utilize these vast regions. Prior to this, the above-mentioned areas contributed only slightly toward the national income, while at the same time they formed a permanent source for malaria fever, which spread in the countryside and in cities as far as Thessaloniki. Until 1931 the government covered the expense involved from the proceeds of foreign loans. Afterwards the financing was secured from internal revenue and from loans of the public corporations. 437,000 acres were given to cultivation, 456,000 acres were secured by anti-flood works and 646,000 acres were irrigated. The contractors were foreign firms, but the maintenance was undertaken by the Macedonia Maintenance Service. Although six million sovereigns from Greek and foreign sources were spent before the war and much more since 1952, much remains to be done. In addition to their reconstruction and maintenance, which is needed on account of the damages suffered in 1941 - 1949, new projects should be completed so that the areas affected may yield the maximum output. These expenses affected once more favorably the national income of Greece thanks to the disappearance, some 12 years prior to the discovery of DDT, of the malaria fever in Central and Eastern Macedonia.

It may be argued that the settlement of the refugees was unavoidable

following the Asia Minor disaster, although, later it turned out, thank God, to be beneficial from all aspects. On the contrary, the "productive projects of Macedonia" were the result of successful planning. In view of the substantial deficit of the trade balance which could not be covered by the invisible items of the balance of payments without continuous foreign loans, and in view of the fact that that deficit was largely due to the insufficiency of agricultural production, it was correct to attempt to increase same. A major effort was needed to raise the per acre output—at that time today's achievement was considered unattainable—and to secure more farming land not only on the hills and mountain slopes but also by draining swamps and small lakes.

The equilibrium of the balance of payments could be achieved by foreign loans whose proceeds were spent in the country. The prospects of the near future seemed to be satisfactory on account of the expected substantial growth of agricultural production, which would result in reduced imports of agricultural goods. However, the increased demand of the farmers for local and for foreign goods alike, following their higher income, does not seem to have been duly taken into consideration. It also appears that the gap between the completion of the works and, consequently, of the termination of foreign loans, and the beginning of increased farm production was not properly considered either. This was all the more important in view of increased difficulty in order to achieve the equilibrium of the balance of payments after some time of disequilibrium.

3. The growth of industry in 1923 - 1939 did not follow a precise plan. It was directed by the profit incentive of those interested, who benefited from a number of favorable to them developments. The substantial devaluation of the drachma which, by 1928 had lost 94% of its 1914 purchasing power, the influx of refugees providing industry with ample cheap labor, increased tariffs, import quotas since 1931 and a new currency devaluation, reducing, in 1931 - 1933, by 60% its foreign exchange value of 1928 while its internal value was reduced only gradually, helped industry's development. The latter was further strengthened by the possibility to mortgage its equipment and by the government's guarantee of loans of industrial firms provided there was prior guarantee of the central bank or of the National Bank of Greece.

Naturally, most of the new industries manufactured consumers' goods. 75% of their raw material was produced in Greece. These same industries covered 75% of the total demand for industrial goods. Most of the new industries were built in the Athens-Pireaus area in order to avoid payment

of tools which were abolished as recently as 1949. Besides, in this area manufacturers could more easily find specialized workers and mechanics and when, confronted with bureaucratic obstacles, as for example import permits, they knew that they could overcome them more easily by being in the vicinity of the proper authorities. The government tried to divert this accumulation of industrial activity to other parts of the country, but with not much success.

The industrial development in 1923 - 1939 was an economic achievement due to private initiative. The latter utilized to its benefit the government measures imposed in order to cope with budgetary difficulties, the disequilibrium of the balance of payments and the two devaluations. In view of untrue figures which frequently appear in tax statements, of the two major devaluations and of the defective book-keeping, it is very hard, indeed, to estimate the capital invested in industry during 1923 - 1939. However, it was a large amount. Part of it manufacturers had borrowed from banks or from private savers. These loans were really reimbursed on a very small scale on account of the gradual devaluation of the drachma. Since the reimbursement of debts was carried out on a big scale in monetary units of almost no value, the redistribution of the national wealth favored the manufacturers, a fact which was not anticipated at the time of investments.

4. The three investments outlined above were successful, as they contributed to raising the productive capacity of agriculture and of industry. Of course, additional capital was needed, and were it not for the outbreak of the Second World War, it might have been invested toward the same direction. Intensive production was needed so that the Greek economy would get the full benefit of the investment carried out. However, intensity of production in agriculture was not satisfactory, and may be attributed, first, to the fact that the great demand for scientific guidance could not be satisfied, second, to the disinclination of the farmers to adopt in all cases the recommendations of the agronomists. In industry, too, the intensity achieved was not the highest possible. As a matter of fact the manufacturers preferred to sell small quantities of goods at high prices instead of large quantities at low prices, since the quotas of imports in 1932 - 1952 provided them almost with monopoly. Another reason is that at that high price level consumers could not absorb large quantities of goods as demand for manufactured goods was elastic in view of the consumers' relatively low income. Almost in all plants, except in the power plants, production moved on a one-shift basis, and in some instances the plants did not operate continuously. Under such conditions, the distribution

of the national income moved clearly in favor of the manufacturers and of those who could manage to obtain monopolistic or windfall profits. It should be added that in this way, the national income did not reach the highest point possible on the basis of the available equipment and training.

B

For Greece the Second World War actually ended in the fall of 1949. Economic reconstruction ended in 1951 and economic development began in 1951. It was possible much earlier to draw plans and to design priorities. In many instances, however, plans were drawn on paper only, since unsettled conditions prevented work on the spot before 1950 in the respective regions.

The plan for economic development of 1948 was based on the assumption that there would be an endless series of foreign grants to the Greek economy and that they could be invested independently of their cost and of their returns from both the quantitative and the qualitative points of view. Gradually, however, it became apparent to those responsible that such plans were totally unrealistic. They also understood that economic development could be achieved only on the basis of serious studies by technical firms experienced in this type of works, provided that the proposed projects would be productive and would be financed not by foreign grants but by foreign credits with interest charges to be paid regularly. It was further understood that only a part which could be used for payments abroad and not the entire capital needed for a particular investment could be secured through foreign credits. The balance ought to be covered from internal revenue sources, provided there was a surplus in the regular budget, and also, from contracting loans in the home market. A prerequisite for their success was that public confidence should be restored and, in the event of borrowing by the public corporations, that the creditors should be assured that their administration would be able and willing to meet obligations punctually.

In addition to the lack of serious studies and of local and foreign capital, the effort for economic development in Greece since 1951 met a number of other difficulties. Such were the absence of those who would be able to run the new plants, the fear of the impact of economic development on the balance of payments, and the lack of trained personnel who would supervise the various projects to be carried out. In section 1, I will examine how these difficulties were faced, and in section 2 what was achieved during 1951 - 1960 from the economic development angle.

1. A prerequisite for launching the program for economic development projects was to remove the above-mentioned obstacles. To make an early beginning in this direction, it became apparent that the difficulties should be removed one by one.

a. Even as early as during the guerrilla war, an American technical firm was assigned the task to prepare a study for the hydroelectric and thermoelectric plants to be erected. It was planned to finance them partially by Italian war indemnity. The decision was correct because it provided for the construction of power plants on the basis of a study by an experienced firm with the technical know-how. It also protected Greece against the possibility of making the same error that other Mediterranean countries did, namely, to base the electrification of the country solely on hydroelectric plants with the well-known difficulties during the drought season. This combination is especially advantageous in Greece since the locally produced lignite can be used in thermoelectric plants.

Similarly, foreign expert firms studied other projects, as for example the power plants of Ptolemais and of Megdova, the Greek Shipyards, the oil refinery, the plant for lignite briquettes, the nitrogen plant and the sugar plants. This way considerable savings were possible both in construction and in use.

b. A second factor which restrained economic development was the lack of savings whose owners would be willing to invest in economic development projects. However its importance as a restraining factor was reduced during recent years as proved by the 1954 and 1960 productive loans of the Treasury and by the loans of the Public Power Corporation. Even before these loans this bottleneck was somewhat neutralised, first, by loans of the central bank in amounts corresponding initially to the estimated amount of hoarded gold and later also of paper money; second, through the "counterpart funds" of the United States aid, third, through the rational utilization of available funds of the public corporations, and last but not least by the surplus of the budget in channelling same to investments.

c. Another restraining factor, which was gradually overcome, was the lack of sufficient foreign exchange reserves, first for the payment of foreign capital goods, second, for the payment of foreign technicians and, third, for securing the import of additional consumers' goods, whose demand increased when higher standards of living were achieved thanks to economic development. This is even more important if one bears in mind the fact that economic development in Greece began when the United States aid had been already sharply curtailed and that Greece was unable to secure loans from the International Bank for Reconstruction and De-

velopment on account of her failure to reach an agreement with its foreign prewar bondholders. However, this problem was solved and foreign exchange reserves increased. To this result contributed the Italian war indemnity, economic development credits from France, Western Germany and Italy during 1953-1958, commercial credits, a recent credit by the United States Development Fund, the transfer to Greece of Greek capital formerly held abroad, and the purchase of gold held within the country by the Bank of Greece. It should be added anyhow that the current balance of payments is not yet in equilibrium. Of course, its deficit is small and by no means can it be compared to that prior to 1952.

d. The lack of those who would be able to run the new plans is not to be found in Greece only. It is not an easy task to find businessmen who are not just speculators. It is even harder to substitute them by public servants or politicians. On the other hand, to turn to available foreign businessmen eager to run the new plants while, at the same time, they do not constitute a threat to the country, is not generally considered a satisfactory solution, unless it may become temporarily unavoidable. Many solutions were proposed in view of these difficulties. In agriculture, transportation and pre war-industries, it was preferred to keep the old firms with credits a large part of which were "frozen". The government stepped in to play the role of a businessman, successfully in the case of the Public Power Corporation, rather unsuccessfully in the case of Telecommunications Corporation. The Fund for Economic Development took over some firms which could not repay their debts. On the other hand, it became necessary that the oil refinery be operated by what is in fact a foreign corporation. In Ptolemais, the interruption of the construction of a major project was avoided only thanks to its purchase by the Public Power Corporation, which thus offered a considerable service to the national economy. Recently, a legislative decree was passed providing for the establishment of an industrial development fund which will establish industrial firms with the money of the taxpayer. Independently of theoretical implications for the advantages secured, the successful running of the fund will be difficult. To a large extent, the result will depend on the circumstances and on the ability to choose the most suitable persons to man it.

e. The fear that economic development will have short-term, adverse effects on the balance of payments is not unfounded, especially if we consider the deficit of the balance of payments without capital transfers, the imports increase during economic development and, finally, the psychological impact on the Greeks of the reduction of foreign exchange reserves of the central bank. However, until this day these fears have not

come true, thanks to the considerable transfer of capital to Greece from abroad.

f. A final obstacle is the difficulty of satisfactory supervision of the quality of the new plants since usually Greek civil servants are inexperienced with same. Up to now no public announcement had been about serious discrepancies in the plants which have been completed. This, however, does not preclude the possibility that this will not happen in the future. The supervision of the quality of work carried out ought to be assigned to foreign competitors of the contractor. Indeed, with the exception of the Greek Shipyards, all the major projects which have been completed or are under construction are carried out with public funds.

2. In view of the neutralisation of obstacles mentioned in paragraph 1, it is not surprising that considerable results have been achieved, as evidenced by the following list :

a. Irrigation was provided in 1958 for 1,477,000 acres, as compared to 668,000 in 1953.

b. The hydroelectric plants of Agra, Ladon, Louros and Megdova, the thermoelectric plants of Aliveri and Ptolemais and the integration of the power network of the mainland of Greece, excluding Epirus. It was thanks to these plants and the expansion of the Athens - Pireaus plants that the power production index reached 745 at the season's peak in December 1960 (1939 = 100).

c. The oil refinery.

d. The Greek Shipyards.

e. The modernization of many plants which contributed to bringing the industrial production index to 235 in November 1960 (1939 - 100).

f. The increased production of minerals which, without considering the spectacular rise of lignite production, brought their production index to 135 in July 1960 (1939 - 100), while in 1957 it had reached 166. The reduction of production since 1957 is attributed to a decline in foreign demand.

g. The substantial increase of housing throughout the country and for all the walks of life leading to a considerable improvement of living conditions. These are by no means small achievements, especially if we consider that during this time the living standards of the population were raised. According to United Nations figures, between the years 1951 and 1957 the index of the per capita gross income at market prices, rose from 111 to 156, while prices remained almost steady. Of course, with the exception of the shipyards and the oil refinery, Greece cannot claim that it

built a heavy industry. The fact should not skip our minds, however, that heavy industry is not necessarily the ideal investment for a country in which, first, the prerequisites for its profitable operation are not excellent — on account of market limitations and on account of natural conditions — second, additional means to provide employment, which heavy industry only partially can directly secure, are needed, and, finally, savings which are required on a substantial scale for heavy industry, are relatively scarce.

Before we pass judgement on the merits of economic development in Greece, we should bear in mind that it is still going on, with some projects near completion — the first sugar factory — some on the first stage of construction — the nitrogen plant — and still others already decided, as for example the hydroelectric project of the Aheloos river involving \$ 124 million. The five-year plan announced in 1959 provides for annual investments of \$ 224 million from government and government-controlled funds and \$ 436 million from private funds, a total of \$ 660 million. This proposition is not an easy task inasmuch as, first, in 1958 the total investment was only \$ 520 million and, second, the equilibrium of the balance of payments is anticipated to be harder to be achieved. As I have explained (para. 1e) this is a dangerous development. On the basis of the experience we have accumulated to date, the execution of the plan will be slowed down in order to avoid unfavorable repercussions on the balance of payments.

PART THREE

As a conclusion we should discuss whether agricultural development should be preferred over industrialization or vice versa. I must say, at the outset, that the question is not properly posed. There is no country, any more, which is purely agricultural and has some handicraft only, as there has never been any country which has been thoroughly industrialized. Rather, the question is whether it is to the benefit of Greece to direct investments, more toward agriculture, toward industry or, I would add, toward the sphere of services. The answer to this question depends on the objectives of economic development. According to what I wrote in Part One, section B, the government believes that top priority should be given to the increased national income in the shortest time. Accordingly, it is my belief that capital ought to be invested in projects which will secure increased income in the relatively near future, a fact which is conditioned by the present situation and future expectancies. It follows that investments outside the field of heavy industry, either directly, or because of the international division of economic endeavor, will bring better results and

accordingly ought to be preferred. This should not be construed to mean that these investments are necessarily and always useful. That would have been the case only if available plants were not clearly sufficient to satisfy the demand, even if properly and intensively used, if new investments are carried out in the most rational and economic way within the framework of the national economy, or when necessary within the international economy. In addition to raising the national income, economic development should also aim at increasing the receipts of the balance of payments. This is not an easy task in view of the frequent difficulties encountered by Greek exporters in securing and retaining foreign markets. This point is very important, and it appears that it was not seriously considered when the Greek government decided in October 1959 to discourage the production of wheat and, instead, to encourage the production of cotton. Indeed, without yet knowing whether Greece's demand to the Common Market countries for long-term contracts for the sale of Greek cotton to them will be accepted, the government urged the wheat growers to shift to cotton with the prospect of government subsidies. There is no doubt that cotton has more advantages for both the farmer and the country, since more hands are needed for its production which the farmer's family can easily provide. Nevertheless, cotton must be exported, while wheat, despite its disadvantages, may be consumed locally or may be used as food for the livestock. Let us hope that the government will not be forced to a purchase and storage program for cotton as it has done with tobacco, rice and raisins. With the adverse monetary repercussions of such measures in mind, I believe that it is preferable to impose a burden on the population as a whole for the cost of purchasing and storing wheat, which may solve the food problem of the country in case of any international or political calamity.

It is my belief that economic development should not be one-sided. On the contrary, it should favor those investments which provide for the speedier increase of the national income, without excluding the necessity for providing for increased employment and for improving the balance of payments.

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