

D. J. DELIVANIS

GREEK ECONOMIC AND FINANCIAL EFFORTS 1940-1941

When comparing the financial and economic policy of the various countries in World War I and in World War II it is easy to note that the results achieved have been better in non occupied countries in World War II. This may be explained a) as the lessons and the experience of World War I had not been forgotten when World War II started, b) as the experience from the policy applied in the thirties in order to face the difficulties created by the great depression in a number of countries and particularly in those which were having a deficit in their current balance of payments and reduced foreign balances had prepared the governments involved to proceed in the appropriate way when the resources available were lower than needed to satisfy both public and private demand.

In this connection Greece belonged to that group of countries which faced great difficulties during the great depression. As a matter of fact Greece had started in the middle twenties a middle term plan of development to be financed by foreign loans. The latter were considered necessary, first to secure the appropriate funds without having recourse to the central bank, second to increase foreign receipts needed to avoid a disequilibrium of its balance of payments. The issue of these loans was not considered problematic under more or less normal conditions but after the failure of the loan issued in the Spring of 1931 it was no more expected possible to issue another foreign loan. This became more evident when Greece did not join the sterling bloc but committed the blunder to reevaluate its currency in terms of sterling in a vain attempt to avoid devaluation of the drachma when countries with a stronger currency and with a smaller deficit of their current balance of payments understood that devaluation was unavoidable.

The Greek current balance of payments could not and even now cannot be in equilibrium without capital transfers as Greece indulges in more inflation and in less deflation than the countries with which both economic and financial intercourse is important. As said before 1931-1939 the Greek Treasury and Greek corporations could not launch foreign loans under the unfavourable influence of the confidence crisis and of the necessity for Greece to default on her foreign debts. On the other hand small capital transfers continued but in order to secure their contribution to the equilibrium of the Greek current balance

of payments they had to be channelled to the Greek banking system and they had not to be affected to private clearings either for capital transfers abroad or for expenses outside Greece for which foreign balances were not given by the Greek banks. This was foreseen by law but the latter could not be enforced without censorship of the foreign mail which was established 1936-1940 and 1945-1951. At the same time imports were reduced by the imposition of quotas and the funds needed abroad for the servicing of foreign debts, both private and public, had been substantially reduced by the devaluation of both sterling and of the U.S. dollar, by the non application of the gold clause after the latter had been declared void by the Supreme Court of the United States of America, by the sharp devaluation of the Greek currency which prevented many debtors from paying punctually and completely their foreign debts, last but not least by the general and substantial price fall of the commodities imported into Greece.

Thanks to all these developments the Greek balance of payments was when World war II started in equilibrium with a very small margin of security and with a rather unimportant foreign balance and a small gold stock. Let me add that the appropriate machinery to handle the relevant problems was available and was operating. Of course at the beginning those in charge did not grasp that in war commodities and services appreciate and that it is preferable to store commodities than to accumulate foreign balances. Gradually those in charge understood the difference but were not able in the fourteen months between the German attack on Poland and the Italian attack on Greece to secure a substantial increase of inventories. It has to be noted in this connection that during the three months preceding the Italian attack the Greek government mobilised partially in the provinces near the Albanian border which increased consumption and did not contribute to greater production.

I

When the war started between Greece and Italy on October 28, 1940, it became pretty soon clear that the Italians were not able to defeat the Greek army except if supported by the Germans. That meant from the economic point of view that the needs of the Greek armed forces and at least the fundamental needs of the civil population had to be satisfied for a relatively long period first by the inventories, both private and public, available, second by current produc-

tion, third by imports from abroad. It has to be stressed that inventories were not excessive, that current production was unfavourably influenced by the mobilisation of many young men, by the necessity of interrupting the production whenever enemy planes appeared, by the growing difficulty of transportation as military needs had to be satisfied first, as many trucks and boats had been requisitioned by military authorities and as the Greek railways do not serve the whole country and particularly not at all Epirus from where the Greek army mainly then advanced Northwards. Of course the people not mobilised, the women and even the children helped a lot and their most famous contribution occurred in the two first weeks of the war by carrying war material through the Pindos mountains in order to avoid a setback not due to the lack of war material but to the difficulty of transport. As far as imports were concerned their volume could not increase as much as needed, as ships could not sail Eastwards through the Mediterranean and as the boats sailing to Greece had to follow the Cape-Suez Canal route. It has to be added that the United Kingdom had to care also for its own needs, that the German bombardment very intensive during the winter 1940-1941 reduced there the production facilities available, that the United States of America were still a neutral country and that imports from Germany and from German occupied countries practically ceased after the Italian attack against Greece.

It was accordingly necessary to avoid as far as possible waste. The increase of prices which was unavoidable with the war raging all over the world, the depreciation of sterling with which the Greek drachma was linked, increased freights and insurance premiums, the non increase of nominal incomes and some minor tax increases reduced the purchasing power of the people. The fear of destructions by bombing, the fear of requisitioning and the fear of the necessity to emigrate induced many people to consume up to a certain degree their stores and even more to abstain from purchases, particularly when the head of the family had been mobilised. Of course in war the greatest consumer is the government and waste in this case is up to a certain degree unavoidable. The government machinery did its best to avoid waste and to reduce the hardships of the people. It succeeded up to a certain degree as far as the latter is concerned except in the case of those North Eastern provinces whose inhabitants were afraid that after a German attack against Greece expected after the entrance of the German army into Bulgaria the Bulgarians would take over. This happened with the greatest part of Thraki and Easter Macedonia 1941-1944. Satisfac-

tory results were also achieved up to a certain degree with the punctual and thorough fulfillment of orders issued.

When referring to Greek imports 1940-1941 it is necessary to consider British help which was granted at once after the Italian attack and amounted to £ 5.000.000 per month. The latter's purchasing power was then despite price rises due to war substantial and their prestige with the Greek people very high. The foreign balances of the Bank of Greece increased substantially-during the two first months of war by some II millions £ — which strengthened the confidence of the Greek people to their own currency and did not induce them to hoard commodities or gold. This development however proves how little the British aid increased the goods available as the ships from the United Kingdom with goods ordered and expected in Greece started arriving in Suez when the Germans had already invaded Greece. So these goods never reached Greece and were consumed in the Middle East. As long as British goods were not reaching Greece on a great scale even the British Commonwealth forces in Greece had to be supplied by goods available whilst the British paid for same with the proceeds of sterling balances sold to the Bank of Greece. Of course it may be stressed that in this way the Axis troops were prevented from taking the goods which ought to be affected for the satisfaction of Greek needs. The aforementioned delay would not have been important if the gallant fight of the Greek Army supported by British, Australian and New Zealand troops against the Axis powers would have continued.

Thus it may be said that the inventories available in Greece when attacked by Italy were big enough in combination with current production and imports to cover both military and civil needs during the seven months between October 28, 1940 and the end of fighting in Crete at the end of May 1941. This was a rather noteworthy achievement for a poor country as Greece was in the early forties. Of course problems would have arisen if the fighting in Greece would have continued and would have prevented or at least complicated the arrival and even more the unloading and distribution of the stores ordered by the Greek authorities. This does not mean of course that British supplies did not arrive at all. They came in function of the difficulties the British were then facing in the Mediterranean particularly since German air and naval forces appeared there in March 1941.

II

Whilst the supply of goods for both military and civil purposes

proceeded in a satisfactory way thanks mainly to Greek inventories and Greek production until the occupation of the various Greek provinces by the Axis powers, the financial effort of the Greek government and thus of the Greek people was substantially supported by the British aid. The latter allowed the Greek government.

- to claim only on a small scale credits if its central bank which was proved by the increase of the note issue during the two first months of the war only by 33% whilst the velocity of circulation diminished substantially. As a matter of fact military authorities were supplied with substantial amounts of money when leaving for the front in order to be able to pay at once whatever they had to buy. Of course these payments were gradual. It is also known that mobilised soldiers and commissioned officers tried to leave their families with some cash and to take some with them when departing without spending same at once. This was somewhat prevented by the prohibition to withdraw unlimited amounts of money for some weeks from the banks,
- to impose only on a small scale tax increases,
- to forbid any increase of nominal rents, wages, salaries and pensions which meant in view of the price rises a diminution of real incomes; this however was unavoidable in view of the delay of the arrival in Greece of the goods ordered a long time ago,
- to ignore the danger of the development of a foreign exchange black Market as long as in view of the support of the Greek economy by the rather substantial financial aid of the United Kingdom prospects seemed brilliant to the man in the street not only in the military but also in the economic and in the financial sectors.

Of course when the Axis troops gradually occupied the country and tried to remove as much as possible of what they found the conditions prevailing changed suddenly and radically. The supply by the occupation authorities was very limited. They were mainly interested to take under various pretexts whatever was possible and ignored nearly completely their obligations in virtue of the Hague agreements signed by both Germany and Italy before World War I towards the inhabitants of the country they occupied. Even without considering the unfavourable repercussions of the permission granted to Bulgaria to occupy

and practically to annex Eastern Macedonia and Western Thraki which were and are net suppliers of foodstuffs to the other Greek provinces the interruption of the capital and invisibles flow from abroad, the substantial reduction of imports, last but not least the exploitation as much as possible of the Greek resources by the Axis powers without any compensation worth mentioning led to the great famine of 1941-1942. The latter was felt mainly in the cities and in those areas, particularly in the islands and in Attica where the food production did not cover the needs of the inhabitants. The survival of the Greek people is due to the British American aid which was channelled to Greece by Swedish boats under the very efficient control of the Swedish Swiss Relief Committee under the auspices of the International Red Cross. It operated 1942-1945 very successfully. Before the regular arrival and distribution of these supplies the needs of the Greek economy were covered on a very limited scale and with great interregional differences by the local production increased by whatever the Greek people could remove before the Germans took over from the Greek and British store houses and from what they could secure from same under German control often with the support of their German staff.

Institute of Balkan Studies

LITERATURE

- Commission de Gestion pour les secours en Grèce sous les auspices du Comité International de la Croix Rouge. Rapport final. Athènes 1949.
- Delivanis D. J.: *The economic and financial policy of John Metaxas - To neon Kratos 1941*, pp. 102-107, (in Greek).
- Delivanis D. J.: *The economic problems of fighting Greece - To neon Kratos 1941*, pp. 188-197 (in Greek).
- Delivanis D. J. and Cleveland W.: *Greek monetary developments 1939-48*, Bloomington Indiana 1949.
- Varvaresos K.: *Report on the balance sheet of the Bank of Greece and the results of 1940 - To neon Kratos 1941*, pp. 124-8.