GREEK MONETARY POLICY AND PLANNING ECONOMIC DEVELOPMENT

Many but not all economists believe that one of the aims of monetary policy is economic development. They favour placing ample credits at the disposal of anybody willing and able to invest in order to intensify the rate of development. The application of this principle leads however to undesirable results as first, investments are decided without sufficient investigation, as second the repayment of the amounts involved is uncertain and leads, if not carried out, to inflationary pressures affecting unfavourably the internal and external equilibria of the country involved and also its monetary stability. [1] This is shown in the majority of the developing countries, in all the countries under communistic governments, in some others but not in Greece. As a matter of fact I intend to deal in my present paper with

I) the data of Greek monetary policy,

II) the latter's influence on the planning of economic development,

III) the achievements in the field of economic development in Greece despite the rather conservative monetary policy of Greece since 1953.

I

Those responsible to plan and to apply Greek monetary policy have to consider certain data connected with Greek monetary developments, the structure of the Greek balance of payments and in general of the Greek economy, last but not least the psychological reactions of the majority of the Greek people to monetary and economic phenomena in view of their own experience and of what they believe having learned in this connection. [2] As a matter of fact:

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1. Cf. L. Köllner, *Die Inflationsgefahr in den Entwicklungsländern*, Bonn, 1963.

2. Cf. D. J. Delivanis, "Some Questions on the Zolotas Report," *Estia* May 1,1964; "Comments on the Report of the Bank of Greece," *Estia*, April 30, 1965; The Monetary Situation," *Estia*, November 11, 1965; "Comments on the Monetary Situation and on the Balance of Payments," *Oikonomikos Takydromos*, August 11, 1966; "Some Thoughts on the Report of the Bank of Greece," *Oikonomikos Takydromos*, June 1, 1967; "Developments in the Monetary

I) Monetary devaluations have been rather frequent until 1953 in Greece.[3] They have occured whenever political developments have not been satisfactory and this has been the case more than once in view of the continuous efforts of the Greek governments first to liberate all territories with Greek inhabitants as long as they had been incorporated in the Byzantine Empire, second in order to preserve the independence of the country when the latter was seriously endangered in the fourties, in their first half by the Axis powers and in their second by the communists, third to improve the living conditions of the people, even if not justified by their output from both the qualitative and the quantitative points of view. Whilst in the XXth century the improvement of the living conditions of the wage-earners is an important aim, the same effort to increase the income of the farmers, particularly of those who produce staple goods has contributed to monetary devaluations not only in the XXth century but also in the XIXth.

Greek monetary devaluations were connected until 1884 and once more in 1932 with the suspension of the gold standard, with the difference however that whilst until 1931 foreign exchange rates were allowed to find their own levels, devaluations after 1932 were linked with foreign exchange control of various intensity. This may be considered as a proof that the rate of devaluation ought to have been larger except if we admit that the outflow of capital is substantial. The fluctuations of the Greek currency in the years 1885-1919 have never been excessive and have been influenced very much by seasonal factors and by the size of the capital inflow.[4] On the other hand the Greek people have developed the tendency despite the stability of the dollar-drachma rate since 1953 to consider fluctuations of the exchange rates as rather normal. The survival of this belief may be attributed to the changes of the drachma rate of the pound sterling following the latter's devaluation in 1967, of the drachma rate of the German mark in 1961 and in 1969 as a consequence of the latter's two revaluations, of the drachma rate of the Dutch guilder in 1961 as the result of its revaluation and of the changes of other rates when various countries

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and Economic Sectors," *Oikonomikos Takydromos* June 28, 1968; "The Contribution and the Aims of the Bank of Greece Last Year," *Oikonomikos Takydromos*, May 29, 1969; "The Credit Policy of the Bank of Greece," *Oikonomikos Takydromos*, May 28, 1970.

3. Cf. X. Zolotas, *Monetary Equilibrium and Economic Development in Greece (*in Greek*)*, Athens, 1965, pp. 78-86.

4. Cf. D. J. Delivanis, "Der Beitrag des Auslandskapitals zur Wirtschaftsentwicklung Griechenlands," *Mitteilungen der Südosteuropa - Gesellschaft* I - III 1965, pp. 14-16 and Courses of Economic and Monetary Policy, Thessaloniki, 1965, 3rd edition, pp. 166-70 (in Greek).

changed their respective dollar rate. The expectation of monetary changes may have been further strengthened through the fluctuations of the price of gold and even more by those of the sovereign rate. It follows that those responsible for the Greek monetary policy have to be very careful in avoiding as far as possible any fluctuations of the dollar rate outside the 1% margins on both sides of the parity as foreseen by the statutes of the International Monetary Fund. It is even more necessary to avoid fluctuations of the dollar rate on the illegal black market in view of the importance of the capital transfers from abroad and of the invisible items of the balance of payments which will be dealt with under Nos 3 and 4.

2. Monetary stability is unfavourably affected:

a) When discrepancies develop between the purchasing power of the monetary unit and of its foreign exchange value and particularly when the latter exceeds the former, even more in a country where the propensity to import is particularly strong as in Greece. This may be particularly expected when foreign exchange control aims to reduce imports as in Greece before 1953. There is no doubt that when imports are restricted by quotas the local producers do not care to cut their costs and to limit their profits as they would have been obliged to by foreign competition. Let me add that one of the reasons of the success of the Greek devaluation of 1953 has been the abolishment of the quotas on imports from Western countries. [5]

b) When a foreign exchange black market develops, provided its turnover is substantial and the rate difference is important. This is no more the case in Greece since 1950 and even less since 1953. The restriction of the turnover of the black market has been achieved

I) by the satisfaction of all needs except of those connected with the capital transfer abroad as long as the latter is not foreseen by the repatriation of foreign capital invested or borrowed in Greece in the frame of law No 2.687 of 1953,

II) by the very weak propensity to export capital from Greece in view of the high rate of interest and profit prevailing there,

III) by the great facilities secured to foreign investors,

IV) by the settled political conditions,

V) by police measures aiming to restrict any illegal deal in foreign currencies and balances,

5. The import quotas on commodities imported from the Eastern Block countries have been kept on the latter's request. As a matter of fact the great problem arises with the settlement of Greek claims arising from exports in the Eastern countries, as Greek consumers are not eager to consume commodities produced in these countries.

VI) by the very narrow difference between the official and the black market rates.

The application of all measures aiming to prevent illegal deals in foreign exchange is indispensable in Greece as the invisible receipts and the capital transfer by immigrants, ship crews and shipowners are substantial. This origin of the remittances facilitates bilateral private agreements. If carried out on a big scale the equilibrium of the balance of payments may be endangered.

3. When inflationary pressures are stronger in Greece than abroad. It is of course difficult to find out if demand pull or cost inflation is stronger in a country than in those with which trade and financial deals are substantial. As far as Greece is concerned it does not seem that demand pull inflation exists. The current budget has a surplus of about 150 millions $ U.S.A. but after carrying out public investments a deficit develops. It is covered only very little with the proceeds of central bank credits. We have however to consider that the propensity to consume of those receiving wages, salaries and profits out of the funds channelled to the Treasury by those subscribing bonds and Treasury bills exceeds the propensity to consume of those last named. That means that the public investments financed by the savings available increases the demand of both home made and foreign commodities with corresponding repercussions on the national expense, on production, on imports and so on the trade balance. On the other hand up to a certain degree the permanent and rather substantial deficit of the Greek trade balance has to be attributed to cost push inflation. Wages in Greece are substantially higher than those prevailing in neighbouring and other countries of a more or less equal grade of economic development. This leads also to increased imports and eventually reduced exports. Exports' reduction has not to be expected in Greece except in the case of cotton and oil as the production of all other important export commodities may be increased whenever demand goes up. Cost push inflation in Greece may be attributed not only to wage discrepancies (wages in Bulgaria amount only to 50% of Greek wages on the basis of the pay in both countries of the unskilled worker and of the Bulgarian tourist dollar rate) but also to excessive taxes and particularly custom duties, the latter with inclusion of course of the numerous additional taxes which are collected when custom duties are paid, further to increasing prices all over the world.

4. The equilibrium of the Greek balance of payments cannot be secured without substantial capital inflow from abroad and without important invisible receipts. Capital inflow has to be distinguished into capital dispatched by Greeks living abroad which has not to be reexported, provided conditions are more or less normal and capital invested or borrowed by foreign corporations,

banks and governments which is to be reexported, resp. repaid. In the second case interest and profits have also to be transferred. The repatriation of foreign capital and its servicing are ruled in Greece by law No 2.687 of 1953 which cannot be amended in virtue of a special stipulation of the Greek constitution. The invisible items of the balance of payments come mainly from the West and are distributed between many sources. Table No 1 gives us the data in millions $ U.S.A.

Year	Capital inflow	Capital outflow	Invisible receipts	Invisible payments	Exports	Imports
1963	114,7	31,8	454,3	98,9	295.9	708,4
1964	178,8	30,8	479,5	129,3	308,4	831,3
1965	224,7	32,9	549,4	136,8	330,9	978,7
1966	250.-	42.-	635,9	154,6	403,5	1.105,5
1967	226,6	64,6	659.-	184.-	452,6	1.125,1
1968	285,4	75,1	718,6	194,2	464,9	1.167,6
1969	373,6	102,5	786,1	240,7	530,3	1.363.-
1970	465.1	80,8	941,3	266,8	613,8	1.612.6

Table No I shows that Greece is able to avoid a disequilibrium of its balance of payments only thanks to huge capital imports which is even more to be noted as: first, the rate of growth is of 6,6% per year, second, the gold stock and the foreign balances of the Bank of Greece, even if the gold tranche with the International Monetary Fund is included, cover only the import bill of three months.

Of course if the capital inflow from abroad should stop we should expect either the continuation of the development with the same speed as now with the result that the gold stock and the foreign balances of the Bank of Greece would be exhausted within one year, or the interruption of all development projects whose financing had been foreseen with foreign capital but eventually with unfavourable developments for those projects which will have to be abandoned before having been completed without however the certitude that in this way the equilibrium of the balance of payments will not be overthrown. As a matter of fact the sudden interruption of the capital inflow will most probably affect unfavourably the invisible receipts of the balance of payments,[6] as they always include some capital transfer mainly in the remittances of shipowners, crews and immigrants. At the same time many people either in Greece or abroad will have the tendency to expect a devaluation of the Greek currency

6. Cf. S. Agapitides, *The Invisible Receipts in the Greek Economy*, Athens, 1964 (in Greek).

and will accelerate the settlement of their debts in foreign currencies whilst those living abroad will postpone the settlement of their drachma debts. These leads and lags may have very unfavourable repercussions even more in a country where psychological factors are very strong. It follows that independently of the repercussions on development Greek monetary policy has to be very conservative.

5. The structure of the Greek balance of payments and particularly the high deficit of the trade balance constitute accordingly an obstacle to development and impose certain conditions on those responsible for its planning.[7] Development has of course contributed to improved living conditions and to enlarged needs of producer goods. The result has been that whilst in 1938 when the income per head did not exceed $U.S.A. 90 the deficit of the trade balance amounted to $ U.S.A. 45 millions (imports 125 and exports 80, the latter covering 64% of the former) in 1969 amounted to 1363 million $ U.S.A. and exports to 530,3 covering only 39% of the import bill with the income per head reaching however $ U.S.A. 800.[8] Of course imports without development would have been smaller but it is not easy to estimate exactly how the trade balance would have been without development inasmuch as the needs of the people would not have diminished.[9] On the other hand the interruption of capital transfers to finance development would have led to unfavourable psychological repercussions and eventually to the discouragement of those who expect an improvement. There is no doubt that in our age no government can afford to discontinue development simply because foreign capital is not available.[10] External disequilibrium, foreign exchange control, plural exchange rates and all other possible complications should be given preference in order to avoid the necessity of stopping development.

II

In paragraph I the factors which Greek monetary policy has to consider in order to avoid as far as possible disequilibrium have been analysed. It follows

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7. Cf. D.J. Delivanis, "Planning and Economic Development in Greece," *Balkan Studies* 1963, pp. 49-66, D. Chalkias, *Economic Development of Greece and the Balance of Payments*, Athens, 1963 (in Greek), A.G. Papandreou, A *Strategy for Greek Economic Development*, Athens, 1962. Thanos C., *Problems of Development Policies*, Athens, 1969, pp. 11 and following.

8. For the equality of distribution cf. J. Seraphim etc., *Griechische Entwicklungsprobleme*, Cologne 1962 and specially pp. 27-39 by W. Glahe.

9. For the imports into Northern Greece cf. M. Negreponti-Delivanis, *Le Développement de la Grèce du Nord depuis 1912*, Thessaloniki, 1962, pp. 128-33.

10. Cf. X. Zolotas, *Economic Development and the Private Firm*, Athens, 1962 (in Greek).

that if the latter is to be avoided economic development cannot be carried out in Greece except if genuine savings and foreign balances are available on a satisfactory scale. [11] This necessity is enforced by the monetary experience of the Greek people, by their tendency to discount official statements trying to persuade their readers that certain disagreable developments have not to be overestimated, by their keenness to try to avoid as far as they are concerned any unfavorable repercussions even if the result is bad when seen from the macroeconomic angle.

Investment represents in the sixties 31% of the national expense and this is a rather high percentage when compared with 5% in the last year of the inter-war period. It can be said that when investment is as high and when we consider that saving amounts to 30% of the gross national income it is not necessary to have recourse to central bank credits in order to finance investments. [12] Monetary policy authorities try to impose this line to the government but of course despite the efforts to handle in this way central bank credits increase every year. This is unavoidable in a growing economy but an effort has to be undertaken if we want to avoid developments noticed in many countries as mentioned under paragraph I, but avoided until now in Greece.

The principles to be applied by Greek monetary policy when both internal and external equilibria have to be preserved are the following:

a) Credits ought to be available only in these cases where output can be achieved in a relatively short time in order to avoid a gap between goods available for immediate delivery and effective demand. If this gap develops either prices have to rise or imports have to be increased. We all know from experience that the reduction of prices is very difficult to achieve owing to the resistance of those affected, owing to the belief that in this way the impression develops, that the economy has entered depression, discouraging thus new investments, pushing inventories downwards and reducing the whole economic activity. It has to be added that the wage increases which follow the price rise cannot be removed ex post and that these high prices may make competition with foreign producers very difficult. Thus I do try to prove that heavy industry has not to be financed in Greece with central bank credit. Genuine savings and foreign balances must be available if the gap mentioned before has to be avoided. In general

11. Cf. D. Galanis, *Sources and Methods of Financing Investment in Greek Industry*, Athens, 1963.

12. See however Calogris C. *Inflation and Economic Development in Greece*, Athens, 1962 (in Greek) and G.S. Archibald, *Industrialisation and Capital Requirements in Greece*, Athens, 1965.

this has been the case in Greece where the repatriation of foreign capital has not created difficulties until now. This is due 1) to the continuation of capital inflow at an accelerated rate, 2) to the avoidance of excessively high rates of development, 3) to the restricted investment in the sector of heavy industry, 4) to the contribution of foreign Greek owned capital which has not the tendency to be reexported independently of the right of those concerned to do so.

b) The rate of the gross national product increase must not be excessive as if this should happen both in absolute terms and in comparison with developments in other countries, external equilibrium will be overthrown and this may be dangerous even more in a Mediterranean country. It may be noticed in this connection that whilst until 1963 the agregate of exports, invisible receipts and capital inflow exceeded the agregate of imports, invisible expenses and capital outflow this is no more so in the last six or seven years despite the substantial increase of the capital inflow, of the invisible receipts and since the export of manufactured commodities, mainly nickel and aluminium has expanded very much, of the export proceeds. It has to be noted that the net proceeds of manufactured exports are much smaller than in the case of agricultural exports. The difference is due to the necessity in the former case to increase simultaneously the import of raw materials, fuels, means of transportation, machinery, spare parts and know how. Independently of this reserve the utility of the export of manufactured commodities has not to be underestimated inasmuch as the need of these commodities is not limited as in the case of the classical Greek exports which are mainly agricultural. Their increased export does not seem possible, at least on the basis of actual prices and of the experience achieved and despite the facilities secured through the association of Greece with the European Economic Community. The beginning of the increased exports in 1966 and its continuation upwards is due to increased exports of manufactured goods. This upwards surge continues in 1970 on the basis of the figures available for the first five months of 1970.

c) The preservation of both external and internal equilibria is another factor to be considered in the planning of monetary policy in view of development. The latter does not influence favourably the preservation of both equilibria as development leads to increases of employment, incomes, demand of both consumer and producer goods with unavoidable result, increased imports and, if production increases cannot be achieved in the short run, reduced exports, except if they may be kept on their former level through compulsory reduction of the local consumption. This step is of course not popular and has not been applied in Greece as monetary policy is rather conservative.

The preservation of internal and external equilibria may be endangered by the granting of excessive credits, as they encourage consumption and investment, even if the increases are not unavoidable and even if their postponement would not have led to very unfavourable developments. The credits which from this point of view have to be most carefully watched and limited are those granted by the central bank. In this connection it does not seem that the Bank of Greece has been careful enough during, let me say, the last ten years. The unfavourable developments to be expected from this tendency to overlend have not shown up fully as the same events can be noticed in many foreign countries.

d) The avoidance of an inflationary rate exceeding that of foreign countries is also necessary. From this angle the duty of the Greek monetary authorities is simplified by the inflation raging all over the world. It is rather certain that without world wide inflation the liberal credit policy of the Bank of Greece would have led to great complications in the Greek balance of payments. [13] These have been avoided despite the diminution of hoarding which in combination with the increased propensity to consume and to invest constitutes another factor to be considered as shown, i.a. in the Radcliffe report.

The official interpretation of the credit policy of the Bank of Greece is that her credits are granted on a temporary basis and that very quickly these credits are repaid with the proceeds of the issue of bonds and Treasury bills. The question is how long this temporary financing in an inflationary way can last without creating problems. This position was simplified before unhoarding started on a big scale by the reduction of the purchasing power available for consumption and investment but this is no more so. The greatest help comes in this connection from the confidence Greek people show to the country's monetary and banking system. This confidence weakens the propensity to increase stocks, to transfer abroad, to accelerate payments abroad and to postpone encashments from there. The importance of this factor cannot be overestimated particularly in a Mediterranean country where the tendency to hoard gold has substantially decreased in the last four years, at least within the country, as nothing prevents hoarding gold in those countries where the ownership of gold is not forbidden, provided of course balances are available there.

In view of these principles ruling Greek monetary policy those at least who expect development through inflation ought to consider that development in Greece is very slow. As a matter of fact however an average rate of increase of 6,6% per year is not small, I would say it is the maximum one could expect without overthrowing the external equilibrium of the country concerned.

13. Cf. D.J. Delivanis, *L'influence de l'inflation sévissant depuis 1939*, Paris, 1970, pp. 112-137.

III

As said at the end of paragraph II the rate of economic development in Greece constitutes the undeniable proof that economic development, even at a rather high rate is possible with conservative monetary policy. That presupposes:

a) the know how,

b) the will of the people to contribute through work, saving and imagination to economic development,

c) genuine savings,

d) foreign balances,

e) infrastructure,

f) a satisfactory administration,

g) internal and external peace.

As a matter of fact these factors are not missing in Greece, at least up to a certain degree, as will be exposed here. It has to be stressed that whenever one of these factors is missing successful efforts are undertaken to get them abroad. For a country as open, as Greece, this is quite natural and does not pose problems, except when conditions either in Greece or abroad are completely abnormal, as it happened in the fourties with World War II, enemy occupation and the war against communist bands.

a) As far as the know how is concerned Greek people are able to study both at home and abroad. They absorb rather easily the knowledge they need, may be up to a certain degree superficially, but as a rule in a satisfactory way. At the same time the great majority of Greeks do not face difficulties in operating machinery even if complicated. This natural ability is very useful with economic development which relies on a growing degree on machinery replacing on a great scale not only manual labour but also intellectual labour. The easy absorption of know how is even more important, as it constitutes a natural quality which cannot be acquired simply by learning. Immigrants returning from abroad are very useful for economic development provided they have been employed as skilled workers.

b) The will of the people to contribute through work, resp. overwork, saving and imagination to the economic development of their country exists also on a big scale in Greece, of course on a higher degree in the cities than in the countryside inasmuch as those who are eager to work abandon their village whenever they notice that the possibilities of progress in their respective birthplaces are not worth noting. Of course nobody expects to find the same zeal with all people but this is unavoidable, nor do we expect that nobody will migrate. The desire to improve constitutes the rule in developing European countries, [14] whilst it is the exception in the greatest parts of Africa, of Asia and of Latin America. It is well-known that in developing countries many people are ready to save even if needs whose satisfaction is considered primordial in developed countries has not been secured. This increases the savings available and thus postpones the recourse to central bank credits. The contribution of imagination is also very important.

c) Genuine savings are of primordial importance for economic development but are possible only when monetary conditions are rather stable. This constitutes another reason in favour of the application of conservative monetary policy. When the latter was inflationary, the Greek people did not consume all their income, except if it was very low but they hoarded gold coins, foreign currencies whenever those concerned were confident in their stability, or commodities which could be kept without risking deterioration or destruction. The hoarding of Greek banknotes was only a subterfuge against the illiquidity of banks, particularly when located in small places with which intercourse was difficult in war or under enemy occupation. Saving is helped in Greece by the habit of all commercial banks to accept saving deposits which may be withdrawn at once with the limitation however that cheques cannot be drawn. [15] Before 1932 even inhabitants of the country were allowed to have deposit accounts in foreign currencies with the local banks. This was abolished in 1932 but reestablished in 1967 however only for those working abroad. It is noteworthy that since 1954 a growing amount of private savings finances the economic development of the country by being affected for the purchase of state bonds connected with lottery. It may be added that the surplus of the current budget which finances public investment comes also from private savings which are reduced by excessive taxation. [16]

The contribution of imagination to economic development is noticed more in connection with the choice of activity and with the operation of the plants, offices and shops than in fixing the aims of economic development. This is the duty of the government and of its advisers with the tendency in Greece not to pay sufficient attention to the opinions of the people and particularly of those

14. Cf. D.J. Delivanis, *L'économie sous-développée*, Paris, 1964, pp. 27-33.

15. Letters have to be written.

16. As a matter of fact taxation has to cover public expenses. When a surplus remains and is used for investment outside infrastructure this means that the tax rate in force is higher than it ought to be.

who could have useful ideas. This weakens the will of the people to contribute to economic development. The official justification of this tendency to disregard groups lies in the fact that only the association of Greek manufacturers does study economic problems even if not connected with their exclusive interests. They may also suffer from a lack of imagination for the repercussion of progress on the whole economy and on their particular problems. Let me add that the representative Greek businessman has less time to think of general problems and to try to influence the public mind and the government in the way he would consider useful. There are of course exceptions as for instance the efforts of merchants to limit the rights of the owners of the premises they use for shops in the choice of their tenants and in the fixing of the rents.

d) Economic development is not possible at least in countries without heavy industry and without a relatively high degree of self-sufficiency when ample foreign balances are not available and when it is not possible to secure short and long term loans abroad whenever needed and under normal conditions. From this point of view Greece is well served since the devaluation of 1953. Foreign capital flows into Greece in a growing scale as shown on table I. The satisfactory monetary conditions and external convertibility, the latter exists in Greece practically since 1953 for foreign investors and lenders, provided they comply with the stipulations of law No 2.687 and since 1959 for everybody not living permanently in Greece, constitute very satisfactory means of attracting foreign capital. Contrary to old and wrong conceptions nobody expects that economic development leads to an improvement of the balance of payments. The contrary is the truth as long as increasing quantities of producer and of consumer goods have to be imported from abroad. Of course economic development leads to increased exports of manufactured goods as shown in the case of Greece which at the same time enjoys the advantages of its association with the European Economic Community. The quick economic development of Greece would not have been possible without the capital inflow from abroad even if the government did have recourse to all the measures of foreign exchange control and import restriction which are used without success in the iron curtain countries and in many developing countries. This is to be stressed even more when we consider how careful Greek people are in watching exchange rates, official and illegal and in trying to take advantage of them as far as possible. This is also the reason for which it is not advisable in Greece to apply measures which may save some foreign balances, but create at the same time the impression, that the balance of payments is in a critical shape. Of course sometimes such measures are not avoided by those concerned when they are not aware of these characteristic reactions not only of the inhabitants of the country but also of the Greeks living abroad. The latter's reactions of course are also dictated by developments on which the Greek authorities cannot exert any influence, I mean the imposition of foreign exchange control in the country where they reside, the increase of interest rates, profitable possibilities of speculation on stock exchanges, on houses and on sites, also on prospects of monetary devaluation and revaluation, fiscal reforms either in their country of residence or in other countries.

e) Greek development policy has always been very keen on infrastructure as far as expansion and modernization are concerned. The same happened already before 1900,[17] before World War I and in the interwar period. It is certainly to the credit of those who were and are responsible for the Greek development policy that the omission of extensive plans for heavy industry to be financed by local funds was linked with great interest for infrastructure in order to avoid bottlenecks and to create incentives for private investments financed both in Greece and abroad. It is certainly noteworthy that whilst the war against the communists was still going on investments in the infrastructure of the areas which had already been cleared from the communists had started. The result has been that the reconstruction of the infrastructure of 1938 had been completed in 1952 and that since then systematic efforts were undertaken in order to expand the infrastructure. Energy, roads, harbours and airports were very much furthered whilst the railway system, at least north of Athens, showed a substantial improvement resulting in a great increase of freight and of passengers carried. The needs have increased a lot in view of the rise of the income per head from 90 pre-war dollars in 1938 to 800 actual dollars U.S.A. in 1969. Thanks to this policy Greece has been able since the middle fifties to avoid any bottleneck by continuous investments which facilitate both the private and the public sectors. This was shown when the first aluminium plant started operating without difficulty as far as the supply of power is concerned. Those responsible for Greek planning policy are also rather flexible in their decisions which they adapt to needs. Thus whilst until 1968 they insisted on the monopoly of the Public Power Corporation in the agreement concluded recently with one of the big Greek shipowners the latter was allowed to build his own power plant for the second aluminium project to be started in Greece under the condition that any eventual surplus power will be sold through the Public Power Corporation. The latter's expansion plans could not be changed in time and so did not afford the possibility to secure the power needed for the second

17. This idea was exposed by the author in the second Balkan conference in May 1970 in Athens on the basis of various data and of the results achieved.

aluminium project. Those responsible were wise to avoid assuming responsibility for this substantial acceleration of their expansion plans, for the settlement of all connected problems of finance, machinery and transportation. The author should suggest that the principle applied in this case constitutes the logical expansion of the fundamental line of the Greek development policy, namely to avoid steps which will eventually contribute to future welfare but will affect unfavourably the living conditions of the people, the internal and the external equilibria of the Greek economy. The investments of the public sector represent one third of the total and are affected nearly exclusively for the infrastructure, as the share of public investments is not excessively high. The sugar factories and the nitrogen factory constitute the most important exceptions in this connection.

f) It is not easy to be satisfied with Greek administration despite the efforts which have been undertaken to modernize and to decentralize same. [18] The mistake is that the efforts undertaken do not tend to simplify but to complicate. The creation in 1946 of the Ministry of Coordination actually of National Economy, may be taken as an example.As a matter of fact this ministry is now competent in all the problems to be solved by the government of the country whilst it ought to be limited first to the preparation and to the readaptation of the five year plans, second to the application of law No 2.687 for the inflow of foreign capital, third to the investments of the public sector. The necessity to consult not only with the ministry in charge but also with the Ministry of Coordination does not facilitate economic development which is the main goal of the Greek Government's policy inasmuch as very often consultations with the Ministry of Finance are also unavoidable. As the author has exposed already [19] Greek administration could be substantially improved and accelerated if

1) every ministry receives on the first of each month one twelfth of all the credits foreseen for its operation in the budget which is to be approved before the end of December,[20]

2) the province governor (nomarkis) assumes within his province all the duties of the minister with the possibility for those whose problems are settled in this way to have recourse to the minister within ten days beginning with the

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18. For the same problem in France cf. J.C. Dischamps, "Les problèmes de décentralisation de l'organisation administrative," *Revue d'Economie Politique 1970*, pp. 177-198.

19. Cf. D.J. Delivanis, The "Repercussions of Insufficient Decentralisation and the Possibilities of Neutralisation," *Spoudai*, 1964, pp. 1-8 (In Greek).

20. It is so since 1968.

publication or the communication of the decision of the province governor. If the minister does not amend the decision within a month this decision is definite independently of the recourse to the Council of State if foreseen. In this way economic development will be accelerated whenever problems to be settled by the government emerge.

g) Economic development cannot be achieved without internal and external peace. Greece is in this connection in a privileged position and this is admitted not only within the country but also abroad as shown by the growing capital inflow from abroad.

Conclusion

The case of Greece shows that a very satisfactory rate of economic development is possible even when monetary policy is rather conservative provided that certain other conditions are fulfilled. These were exposed under paragraphs II and III and have to be stressed whenever economic development is not to be linked with unsatisfactory monetary and economic phenomena.[21] This presupposes a conservative credit policy of the whole banking system but mainly of the central bank. Credit should not be available for the financing of projects whose output will be late, for an excessive rate of development, for any project which may eventually upset the internal and the external equilibria of the country concerned. Despite these restrictions imposed on monetary and on economic policy, development may be very satisfactory provided the know how, the will of the people to contribute, genuine savings, foreign balances, infrastructure, satisfactory administration, last but not least internal and external peace are available.

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