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Cold War Allegiances and Societal Pressures: Post-war Reconstruction and Greece's Position in the International Economic System

In my presentation I will argue that postwar Greek history is divided in two large sub-periods, each with separate characteristics regarding economic policy, societal dynamics and the position of the country in the international economic system. From 1950 to the late 1970s, Greece was surprisingly successful on the economic field: in the 1950s and 1960s its economy grew at a surprising pace; even in the 1970s, during the energy crisis and the years of stagflation in the West, the Greek economy continued to grow faster than (and thus to converge with) the West European ones. This was the sub-period (1950-80) when Greece managed to associate with the EEC (1961) repay its public debt (mid-1960s) and then become a full member of the European Communities in 1979-81. On the contrary, after 1980-81, the Greek economy started a slow yet painful (and, as it eventually would prove, extremely dangerous) diversion from the other West European economies.

In an effort to assess post-war Greek 'reconstruction', it is important to take into account that in 1950 the country needed to do more than heal the wounds of the war years. Indeed, Greece had went through a series of economic collapses and societal disasters from 1922 until the end of the Greek civil war in 1949.

Social and political conditions in Greece had been appalling even before World War II. In 1922, the country's defeat in the Asia Minor War against Kemalist Turkey had resulted in the forcible expulsion of the Greek populations from Turkish territory; the economy collapsed in the aftermath of such a crushing military defeat, and a country of 4 million people needed to accommodate almost 1,5 million refugees from Turkey. The resettlement of the refugees took place after much effort, but, as could be expected, was accompanied by immense misery and social horrors. Then, in the early 1930s, Greece was struck by the Great

Depression. In 1932 the government of Eleftherios Venizelos was forced to declare a default of payments of the country's external debt: bankruptcy. This caused the collapse of the reformist program of Venizelos's last government, and left Greece literary dead in the water of the great crisis of the 1930s. The imposition of the Metaxas dictatorship in 1936 was an indirect consequence of this. During the subsequent decade, the troubled 1940s, Greece went through every conceivable disaster that a country may suffer, short of the permanent loss of national territory: war with Italy and Germany in 1940-1; triple occupation by Germany, Italy and Bulgaria in 1941-4; large scale famine in the winter of 1941-2 which claimed the lives of an estimated 30,000 people in the Athens area alone; a new collapse of the economy and hyperinflation in 1943-44; and a civil war which developed in three phases in 1943-4 (even during foreign occupation), the 1944 battle of Athens, and the third phase of 1946-9.

In other words, the emergence of new cleavages between communist and anti-communist forces did not involve a simple reflection of international balances on Greece: at the same time, it was the result of a longer historical process in which Greece faced successive economic, social and even psychological collapses. In a conflict like the Cold War, involving the legitimization of the political and social systems, Greece, a frontline state between East and West, was hugely exposed and vulnerable, if only because of the evident and huge deficits of its economic record. It was not simply the result of the intervention of the Great Powers, which the Greeks always like to portray as the cause for their evils. The destruction, both material and moral, was completed during the last civil war of 1946-9, which brought further economic loss, and annulled any prospect for the creation in the country of a political system based on tolerance. Last but not least, the 1946-9 civil war meant that Greece had lost the first two years, the most productive ones, of the Marshall Plan, for the simple reason that, as the other Western European states started their reconstruction, Greece was suffering *additional* loss, material and human, from this additional conflict. I am sure that if you were to bet on Greece's prospects in 1950, you would not put your money on Greece's good prospects.

An Era of Economic Accomplishments, 1950-80

Yet, if you had made your bet this way, you would have lost your money. In fact, Greece, one of the less successful economically countries of Europe until 1950, proved to be one of the most successful ones after 1950. One of the reasons for this, was the realization of the need to rush. In the Cold War era, a failure on the economic front would devastate the legitimization of the political and social system and would bring Greece under the communist bloc.

In the Greek economic success story of the post-1950 years, one cannot ignore the important impact of the Americans and the West Germans, for which Konstantina Botsiou and Mogens Pelt – two of the speakers of our conference today – have written some of the best available works. American intervention through the Marshall Plan gave to Greece not only the urgently needed dollars, but also a new sense of planning for development, and new models of governance, based on the New Deal, and able to combine the developmental intervention of the state and a free economy. Moreover, as Konstantina has shown, the American intervention, although often blunt and harsh, exposed the inadequacy of the pro-Western Greek political forces (relics of the interwar years) and indirectly aided a radical renovation of Greek political life.

Yet, it was mostly the advent of new political forces and groups of leaders within Greece, that proved crucial in building up a successful economy. It was this advent of indigenous forces, willing and able to implement the reforms, that ensured Greece's survival as a Western state. By 1950, the new generations of Greece's leaders, often educated through their cooperation with the Americans in Marshall Plan projects, were coming to realize that it was not enough to win the civil war militarily; they now had to win on the grounds that really mattered – namely the economic and social fields. They had to win the peace. As the leading conservative daily, *Kathimerini*, put it in 1955, Greece was exposed to communism because of the extremely low per capita income of its people – a disappointing average of 180 dollars per person. 'Well', *Kathimerini* argued, 'these 180 dollars are 180 open doors to communism'.

Economic success went hand-in-hand with the renovation of the political system. This involved mostly the rise of a new Centre-right; the Centre-left in Greece simply became the greatest casualty of the civil war, since it was impossible after the traumatic experience of the 1940s for someone to go out claiming that he/she was a socialist. The Centre-left remained in post-war years a stillborn child, something which is evident even in today's crisis in the picture of collapse that the Centre-left sadly presents.

The post-war political renovation started with the creation of a new Right – or, to picture it in European terms, a 'Centre-right' – in 1951-6, first unexpectedly under the imposing figure of Field-Marshal Alexandros Papagos (an old monarchist of the interwar years), and then, on a more systematic and permanent basis under the younger leader, Constantinos Karamanlis, who succeeded Papagos in the premiership in 1955, and was accompanied by a group of exceptionally able people like C. Tsatsos E. Averoff, G. Rallis, and the leaders of the Greek economy in those years, P. Papaligouras and X. Zolotas. This new Centre-right made sense in the European political landscape: although it was still

burdened with people (and psychoses) of the civil war years, it proved able to plan development, be creative, and avoid the sirens of populism and of the temptation of giving to the people money that the country did not possess. It was under this leadership that Greece became the first Western European country to recognize the potential of the EEC, and to seek a formal association with it as early as 1959 – accomplishing its task in the Treaty of Association of 1961. It was the same people who accomplished, again under Karamanlis' premiership, the accession to the European Communities in 1979.

A first phase of the stabilization of the economy took place in 1951-2, under the Centre coalition governments. However, the start of development took place in 1953, when the Papagos government proceeded to a large scale devaluation of the national currency, the drachma, by 100 percent. It is important to note that the devaluation of the drachma was not the only measure that brought about this result; it was accompanied by a series of other measures – for example the merger of two big banks, the liberalization of imports, the reduction of the size of the state, including the reduction of the size of the civil service. Without these measures, devaluation alone would have simply turned into galloping inflation. This is an important argument in the context of the present crisis as well: there are people who claim that if Greece withdrew from the Euro, it would be able to devalue its currency and thus avoid implementing the painful structural changes; the experience of 1953 shows that structural changes are imperative, regardless of whether we are in the Eurozone or not.

Development was then continued on a more systematic basis under the Karamanlis governments in 1955-63. The first phase, 1956-8, involved planning and the undertaking of major public works on land reclamation and electrification; indeed, the production of energy was a precondition for industrialization, which came in 1959-63 when a huge number of new factories was created, from small agricultural industries to large Steel mills. The first Five-year Economic Development plan, the only one to be fully implemented in Greek history, provided for the balanced development of three sectors of the economy, agriculture, industry and tourism (it was then that the infrastructure of Greek tourism was created). By the early 1960s the Greek economy was growing at a rate of 8 percent annually. It should be noted that these were accomplished despite the country's large defence expenditure of those years, and also despite the fact that it was unable to borrow money from international financial markets, since it had defaulted in its payments of its debt in 1932. This, in fact, was the reason why American military aid (easing the burden of defence expenditure) and the 1958-9 West German government-to-government loans were so crucial in helping the Greek economic effort.

The economic development in the 1950s and 1960s was a turning point in Greek history. Development managed to heal the wounds which had been dealt to the body of society in the previous traumatic period of 1922-50. Greece ceased being a country of the 'Near East', and became a proper 'European' country. Tellingly, the 1961 association with the EEC also involved Greece's position in the Cold War. The decision to associate with the EEC aimed to settle not only economic matters, but also to enhance the pro-Western Greek political and social system, and to stabilize its position as a member of the West. Mogens Pelt has rightly described this as a process of 'tying Greece to the West' – but this would have been impossible or even unthinkable without the breathtaking economic development that started in the early 1950s.

Karamanlis fell from power in 1963, but the Centre governments of the 1960s, despite their tendency to populist public spending, continued the same economic strategies and development went on. Indeed, the Centre governments also contributed on another crucial level. Greece's default of its debt payments in 1932 had cut the country off the international markets. Now, after the beginning of its economic take-off, Greece started negotiations to pay its public debt. The first deliberations took place in 1953-4, but a turning point was reached in 1960-1, and was a part of the Greek-EEC negotiations for the Treaty of Association: the country could not be fully considered as a member of the Western European world if it did not meet its economic obligations. The final agreement on the settlement of the Greek debt was reached under the Centre governments in the mid-1960s.

The 1967-74 dictatorship was a hugely humiliating experience, but did not put an end to economic ascent. After the transition to democracy, in 1974 again under Karamanlis and his associates, the Greek economy continued to grow faster than the other EEC ones. In 1979, Greece achieved one of its age-long dreams, and became a full member of the European Communities. Entering Europe is an integral part of the Greek national narrative in the past three centuries, and accession was the jewel in the crown of the policies of the first post-war period. Unfortunately, it was the last success.

Post-1980: Diverging from Europe

It is ironical that accession proved to be the peak in the process of convergence between Greece and Western Europe. Immediately after accession, a painful process of diversion from European economic mentalities started. This also involved a momentous change in the West.

Indeed, in the early 1980s, the Western world reformed its model of governance. First under the influence of Margaret Thatcher and Ronald Reagan, but then also in more moderate forms under Helmut Kohl and Francois Mitterand, a new methodology rose, placing its emphasis in privatization, deregulation and the reduction of the role of the state in the economy. Greece failed to follow this change. In the late 1970s, albeit generally successful, the country had come to have an excessively big state, as was the case with all Western countries. However, when in the early 1980s the Western countries started reducing the size of its states (even countries under socialist governments), Greece, which now was under the socialist government of Andreas Papandreou, not only failed to reduce its state, but it multiplied its size, and proceeded to a huge (and, as it proved, premature and impossible to sustain) expansion of its social services. To put it simply, until the early 1980s, Greece moved as the West moved; after that, nobody in the West followed policies similar to the Greek ones.

This was the major diversion of Greece from Western Europe, and the basis for the crisis which came later, in 2010. In some aspects, Greece indeed adjusted to European trends (for example the *acquis communautaire*, the abolition of the death penalty, family law etc), but the parting of ways in terms of economic strategy proved fatal. The truth of the matter is that this did not show immediately, if only because the Community bailed Greece out twice in 1985 and 1989, when it came close to bankruptcy. At that time, many people had pointed to the problem: it is easy to gather a few thousand pages by politicians, analysts or economists who did so. But the easy solution of large public spending was always preferred by the public.

In this context, the years after 1980 have radically different qualitative characteristics compared to the previous period. To give some examples, even in the 1970s, without large transfers of funds from the Community and with a big expansion of defence expenditure because of the crisis with Turkey, Greece continued to develop faster than the Community members. After 1981, it received large amounts of assistance from the Community, borrowed huge sums from the international markets, but failed to converge. Debt as a percentage of the GNP rose from 34,5 percent in 1981 to 80,7 percent in 1989. The standard of living rose, but this was not based on a healthy expansion of the productive base. The long-term destabilization of the economy – but also, more painfully, of mentalities – that accompanied this outbreak of false welfare, was fatal. It proved impossible to limit these effects in the subsequent decades.

Conclusions

In the course of the past century, the problem of Greece seems exceptionally strange. The Greeks have proved exceptionally good in their choices of worlds. Thus, Greece was a part of the winning coalition in five successive major international conflicts in the turbulent twentieth century: the two Balkan Wars, the two World Wars, and the Cold War. When faced by existential crises, they seem able to gather their strength and disclaim the Cassandras: witness for example the exceptionally successful, rapid and bloodless transition to democracy in 1974, in conditions of a potential civil war and while a huge external crisis (with Turkey) was developing. The same thing is sometimes said for the present government, which managed to keep the country in the Eurozone, despite predictions to the contrary. But the problem of the Greeks seems to lie elsewhere: in their difficulty in mounting a sustained, long-term effort. It is, perhaps, heroic to fight battles with no tomorrow against irrationality, as our parents did in the 1940s and in 1974, and as we have been doing in the past two or three years. But this is not enough. We must learn, after a success, to make the necessary follow up to the achievement, and to ensure that our gains will not be lost. This has been our major weakness. Our generation needs to steer the country to a position where the continuity of effort will become a way of life.

And then, we need to define the essence of continuity of effort. Continuity cannot be equated with immobility: it essentially refers to the need to embrace and promote reform. Our present crisis is simply the result of the *immobilisme* which was the main characteristic of the Greek reality of the past three decades. But even more generally: If there is a clear lesson to be learned from Greek history of the twentieth century, this is that failure to reform is always disastrous. The suspension of prudent and evolutionary change may, in the short term, satisfy some people, but in the end leads, with mathematical precision, to disaster. The absence of reform deprives society from the necessary sense of direction, encourages demoralization of the social forces, leads to unreal expectations and finally brings a huge crisis. This is what happened in the bankruptcy of 1932, which destroyed the last reformist effort of Eleftherios Venizelos, and led to the 1936 dictatorship. This suspension of the necessary reform in 1963 (when Karamanlis fell from power) led to the political crisis of the mid-1960s, and then to the 1967 dictatorship. And the inability to adjust, and to make the small necessary reforms in the past 30 years led to the present major crisis.

In this context, allow me to make an additional point. It is not enough to make our self-criticism and point to the Greek mistakes which have led the country to its present predicaments. It is important to admit and record our failures – and we do it especially when we speak on these things within Greece –, but this is not the whole story. Our partners have indeed shown great solidarity and have saved us from our own folly: without the EU Greece would have been annihilated by the crisis. However, as is now widely accepted, the EU

program for Greece has been in many respects too harsh or even based on mistaken estimations. Mostly, our EU partners have shown an excessively harsh cultural attitude towards the Greeks – I would even say an attitude of cultural dismissal. This simply makes the task of the Greek reformists even more difficult within the country. I am by no means trying to justify the Greek mistakes of the past decades, but I need to record my view that in this story of the Greek crisis, we have often felt alone, cut-off from the most important source of our strength in Greek society: the chance to point to the European ideal, and thus to convince our co-citizens to keep up the effort.

However, I am anxious to point out that in this effort we still have a huge advantage. The Greek reformists have traditionally represented the main aim of the national narrative, namely the effort to become a part of the developed world. Thus, we have a solid social base. We have not yet succeeded in building a fully satisfactory system – this is why we are in this present crisis. We are trying to live to fight another day. But for various reasons involving the dynamics of Greek society, our prospects are not bad. We can win this.

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