FISCAL POLICY IN GREECE

(1917 - 1930)

by

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To

MY FATHER

C O N T E N T S

C O N T E N T S

C O N T E N T S

PART III: CONSEQUENCES (Cont.)

Preface:

The purpose and plan of this study are set out in the Introduction. Here, I only wish to express my gratitude to my Father who has tirelessly supplied me from Greece with the necessary statistical and other sources and helped to overcome the many obstacles which stood in the way of completion. This thesis and I will owe to him a lasting debt.

In writing the final form, I have had the benefit of Dr. Higgins' valuable criticism in every part of the work: and I wish to express my gratitude to him for he has helped me to eliminate many obscurities from my pages.

I am very much indebted to Dr. Kierstead for his encouragement and helpful commentaries at the early stages of this study.

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INTRODUCTION

This study is an inquiry into a period of fiscal policy in which the author believes lie the roots of the present dislocation of the Greek economy. If economic progress means improvement in the efficiency of the use of our means to attain our ends, this period offers nothing but a decline; and the decline in productivity is the outstanding feature of this era which had dramatic consequences for the growth of Greek economy.

There is no synthetic study available for the period 1917 - 1930. The work of the late Professor A. Andreades, the only outstanding economist that Greece ever produced, stops in 1920. Scattered articles on agricultural and other problems, particularly on the Balkan War loans, were written by him until his death a few years later. However, no attempt at synthesis has been made by him and many of his conclusions are dubious because his data were erroneous. Official statistics of the period were available only after 1930.

Current authors are much too preoccupied with the major inflation after the Second World War to explore

the strikingly parallel situation of the twenties; real income was decreasing then as it does today. Yet, from the study of the reconstruction of the twenties a lesson would emerge. Any reconstruction effort not conceived as an interlude in the dynamic evolution of the Greek nation is self-defeating. We have to reconstruct so as to allow the ebb and flow of dynamic evolution to work towards a higher efficiency, a greater economic progress.

Past and present discussion of the financial problems of Greece is concentrated primarily on the relationship of price level and money flow.

The literature accepts implicitly the obsolete position that price levels vary with the quantity of money and the analysis is as fallacious and disappointing as the "crude theory of money" itself. The economic system is left to look after its own growth.

Yet, it is true that the climate of the twenties is not one to which the literature of Greece would like to return. Since the twenties the duty of governments to alter and control the course of economic events comes to be regarded as necessary.

However, the controls suggested by Greek economists are not designed to check the continuous inflationary pressure on the Greek economy and simultan-

eously facilitate the accumulation of capital. Meanwhile, the standards of living remain at the same low level. These controls concentrated as they are on the price level, disregard the savings aspect of the problem, while no attempt is made to direct scarce resources to essential investment.[1]

1 - An example: Professor Xenophon Zolotas, Monetary Policy and Greek Economy, Athens, Papazisis, 1950 (in Greek), insists on the "special case of Greece" insofar as monetary stability is concerned. In his chapter on "prices", he implicitly uses the isolations provided for by the quantity of exchange equation. But the problem of increasing home production as a medium of expanding the flow of goods is dismissed in favour of an increase in imports which naturally will produce great difficulties in balancing the budget. No clear statement is made of means to be used in raising the real income of the Greek people. The measures of forced decrease in consumption described in this chapter cannot be applied forever. Instead, he reverts to the old problem of balancing government receipts with revenues, the discussion of which occupies the major part of his book. He also advocates an unfavourable balance of trade, the deficit of which must naturally be balanced by foreign aid, which, according to this reasoning, has to be perpetual. Another point must be noted. He attributes the cause of the inflationary pressure to the monopolistic conditions of the market (p.117) and he discusses the beer industry and the olive oil market. However, monopolistic conditions are necessary for the development of capital scarce countries. His treatment of the olive oil market leads us to believe that by "monopolistic" Professor Zolotas means "hoarding of commodities as a measure of retaining the real value of savings" which naturally by itself is a result of the inflation. Major part of the national income has thus to pay for the foreign investment which will be used only for consumption purposes! Although he tries to divorce himself from his Austrian training, his treatment self-defeats his scattered "functional" digressions. The conclusion is that even today prices are thought to vary with circulation levels.

It is characteristic of the past and present fiscal history of Greece that the inherent anaemia of the economic system always showed its full effects as soon as the level of foreign lending and investment decreased.

The relative decrease of the rate of growth of the Greek economy after 1918 owes much to the romantic longing for a pre-war world. Fundamental deviations from that world were considered as accidental and discarded from policy considerations; policy-makers were unable to accept these changes as firmly established.

Any reconstruction effort cannot be successful by simply injecting into anaemic organisms a steady flow of consumers subsidies while unplanned controls depress output. Income, irrespective of its inflated size, is diminished below real subsistence consumption, and capital consumption results. This is the fundamental cause of the sad results of the reconstruction efforts in Greece. If ignorance could be excused in the twenties, it is criminal in the fifties.

Indeed, thirty years ago, fiscal policy as a policy of using government expenditures and revenues to produce desirable effects on national income, production and employment, was practically unknown. Stourm in his

"Systemes Genereux d'Impot"[2] concluded that a tax must be divested from all moral and protective qualities in order to become the unique supplier of the national treasury, while Edgeworth stated that "the science of taxation comprises two subjects: the law of incidence, and the principle of equal sacrifice".[3]

The experimentation of governments during the twenties led to a changed doctrinal outlook in the early thirties. Government expenditures were considered as possible to "pump-prime" economies on their upward course. Recovery would permit the emergency expenditures to be offset and the higher revenue yields would produce a balanced budget. Professor Lerner's "Functional Finance"[4] was under way.

In the late twenties the work of Keynes and Hansen gave a new impetus to fiscal theory. The Keynesian thesis maintains that because of the inherent instability of industrialized societies, no equilibrium of economic forces can be reached at full employment levels without government action; Professor Hansen's work on Business Cycles emphasizes the problem of maintaining capital goods production at a level making full employment possible. Economists now have at their disposal tools that make fore-

2 - p.35.
3 - Papers Relating to Political Economy, London, 1925. Vol. II, p.64.
4 - A. P. Lerner, "Functional Finance", Social Research, February, 1943, X, p.38-51.

casting possible; governments have fiscal measures to increase national income, production and employment without inflation.

The present study helps to close a gap in the literature on Greek economics. It provides a synthetic exposition and correlation of the best available data, as well as fundamental deviation from the past or present line of approach. If originality consists of the development of new techniques, or the application of known techniques on unexplored material, this thesis certainly claims the latter. Yet, this is a sad claim. Scientific progress, like any other progress, is an improvement in the efficiency of the use of our means to attain our ends. Original progress is too much for one to expect from the capital-scarce countries. However, a clever application of the improvements effected in other rich countries towards an increase in the efficiency of the use of scientific means to cure economic anaemia could have unveiled long ago the truth described in the following pages. Economics is a much neglected science in Greece and romantic longing is not creative.

The emphasis throughout is on the real aspects of the problems involved. Price levels are not statistically treated here to prove that monetary circulation

varies directly with prices or vice versa. The problem of prices is obvious. Prices vary directly with circulation as long as the flow of goods and velocity of circulation of money do not change.

The thesis is divided into three parts. In Part I we discuss the limitations on the productive potentialities of Greek resources, the structural evolution of the past, and establish the connection of this structure with the ebb and flow of international activities. In Part II, the national policy of 1917 - 1930 is treated "substantially", while in Part III, the functional relationships of this policy to the aggregates of the economy are established and suggestions forwarded. It is maintained throughout that the irrational concentration of budgetary policy on the short-run problem of relief neglected production entirely; and the methods applied to finance expenditures resulted in inflation that contributed to the perpetuation of the circularity of the productive process, making capital accumulation impossible. Thus a policy of directing investment towards capital accumulation and applying fiscal measures to check the inflationary pressures is suggested. A systematic plan for achieving this objective is necessary.

The obstacles encountered were innumerable. There

was no income accounting in Greece before 1947. The author had a choice of conflicting statistical information. The choice was always in favour of the official data. Reference is made to the conflicting information where such conflict exists. The material is obviously condensed so that problems may stand out in framework rather than in detail. The theme is large; this study is meant as a starting point.

CHAPTER 1

THE RESOURCES

A. METHODOLOGICAL PROLEGOMENA

In economic language terms like land, labour, capital and enterprise are class-terms. They derive their class denotation not merely because they mean "a number" of unrelated or particular units,[5] but because they possess a common characteristic that is well determined in range and purpose by specific class differentiae. These class-terms denote the data for the productive process which, in turn, uses these prerequisites for transformation into utility.

The economic class-terms, like all other class terms, have both a substantial and a functional logical meaning. The units of labour are things traded in a market. They have utility, cost and esteem value measurable in terms of indifference equivalents, and their value determination constitutes the subject of production pricing.

It is difficult for most of the economic class-terms to have in our ordinary language any other meaning

5 - Here used in the sense of "natural units", not corrected in terms of time or efficiency.

but substantial. That is, by labour, is ordinarily meant the activity of "labour" - a group of individuals forming a clearly distinct socio-economic group excluded from other social groups by social definition.

In strictly economic usage, however, the particular unit is the subject of analysis only in its capacity of contributing to its factor class for the benefit of the productive process. We are thus interested in the functional logical meaning of our factor classes. We are not interested in "labour" as a class for its own sake, but we consider it as a class because its members perform the function of "labouring".

The chief difficulty in this treatment arises when we enter from the atomistic world of full employment equilibrium into the general field of aggregates of the economy with all their causal reciprocities, and try to establish a dynamic trend.

At this point we have to expand the limits of our functional interpretations in order to include a new quality to our terms: potentiality of employment.[6] This

6 - Lindley M. Fraser in his pioneer "Economic Thought and Language", London 1947, p.200, suggests that when it comes to policy we have to revert to a substantial interpretation of factors of production. But is this actually necessary?

In an essay presented March, 1950, at the Labour Seminar, we had an opportunity to clarify the primary cause of difficulty. A straight line has to be followed when interpreting the logical foundations of economic

(Cont. on p.11)

quality, according to the logicians, is a "relational" quality.

The class-differentiated functional units must be, therefore, analysed with consideration to their productive potentialities and limitations.

It is with this end in mind that the Greek resources are to be treated. We are not interested, may I repeat, in groups of resources classified in aggregate terms merely because of a substantial similarity. What we are interested in is: a) their functional character-

6 (Cont. from p.10) - science. The writers in this field seemed to be intrigued by the ambiguity of the class-term "unemployed". They thought it impossible to discuss the effects through the multiplier process on national income of new public investment, injected into the economy at a certain point of time, without implying that a class of "unemployed" as such (substantially) existed, which would now be employed because of the direct and secondary effects on public and private investment. It was pointed out that their confusion lay in the fact that the underlying assumptions of the system were momentarily forgotten. That is, "employment" in a purely abstract economic sense excluded involuntary unemployment, and if wages were manipulated in the right direction the class of unemployed, as such (substantially), would not exist. This is further consolidated by the classic assumption of fixity of resources. What is really meant in the macroeconomic analysis is not that a class of "unemployed" as such exists requiring an interpretative break in our functional system, but that the classes of "employed" factorial units are employed because they were already potentially productive. Productive potentiality is a subtle quality, a prerequisite to the functional interpretation of economic class terms when applied to the dynamics of trend. It is what the formal logicians call a "relational quality" that saves us from dangerous and unnecessary excursions into everyday terminology.

istics; and b) their functional potentialities within the productive process and economic policy.

The inclusion of descriptive material in the following pages of this chapter serves a two-fold purpose. It may be considered as an introduction to our study, particularly valuable to the layman in that it helps to present a more complete picture. In the second place, it serves as a premise for the necessary conclusion concerning the functional potentialities of our resources.

In a sense, the above material is the least original part of the present thesis. However, every care was taken to present the geographical, historical and ethnological data that follow in an accurate and unbiased manner which, amidst the atmosphere of intrigue surrounding Balkan politics, could be an original contribution.

B. LAND AND PEOPLE; AN HISTORICAL SURVEY.

The well-known Greek classical civilization was the last and most influential upsurge of the Mind before the advent of Christ. The locus of this civilization was the Eastern Mediterranean Basin; and it has repeatedly been in great danger from invaders sweeping in throughout the ages from Asiatic countries.

The early economic conditions did not allow the formation of one Greek state having the cohesion and organization that modern European states acquired only a few centuries ago. What Aristoteles, Isocrates and Aeschylus defined as Panhellinion was merely a class-term based on ethnological similarities.

A fundamental observation has to be made. The Classical Greek Society based its activities upon the same abstract principle as our modern western societies; the emphasis was on the Mind. The fact that it acquired the aristocratic outlook on everyday matters is to be blamed on the limited economic conditions of the era. The fact remains that the early Greeks had materially experienced what Kant later termed the "law of reciprocity". They tried to "rear the fabric of felicity by the hands of reason and law" as Bentham would have said. Modern liberalism cultivates Matter with Mind, while accepting Green's concept of positive freedom.

The campaigns of Alexander the Great founded an empire and a civilization - the Hellenistic - through which classicsm survived. Modern science owes much to the Greek scientists of Alexandria.

It is worthwhile remembering that Alexander the Great and his Macedonians were as much Greeks as the Athenians and Spartans.

Modern theorists of slavic origin who write about the Macedonia province should be reminded that the ethnological substance of its people should not be judged from the local chauvinism of Demosthenes. The Macedonians participated in the Olympic Games and Alexander the Great dedicated to the temple of the Maiden Athena (Parthenon) the shields and weapons conquered at Granicos River in Asia Minor (334 B.C.).

When founded in 395 A.D., the Byzantine Empire was, to all outward appearances, a purely Roman state. With the passage of time the Roman conquerors were conquered and the Greek language predominated completely. By the time of the Macedonian Dynasty (867 - 1081) the Hellenization of the Byzantium had indubitably been brought about in full.[7]

In 1453 this Empire fell to the Turks. During nearly four centuries of Ottoman conquest, the Greeks showed remarkable vitality and retained their spirit

7 - Persian, Armenian, Jewish, Arabian, etc. writers of the Byzantine period call Byzantium "the Greek Empire". Prominent modern students of this era agree. See works of C. Diehl, G. Schlumberger and the Russian Vasiliev.

through the grants of Greeks settled abroad and the spiritual leadership of the Church.

The independence of the Greek state was obtained after a bitter War waged for seven years (1821 - 1827) against the Ottoman Empire. The de jure recognition of this independence was granted by the London protocol, signed on February 3rd, 1830, while by virtue of the Treaty of Constantinople (9th July, 1832) the frontiers of the nation were definitely fixed. The surface occupied by the Greek state was then 47,516 square kilometers and the country was composed of the area of Central Greece, the Peloponese Peninsula, the Island of Eubea, the Cyclade and other smaller islands. The Ionian Islands were annexed by virtue of the London Treaty of 1864.

In the meantime, Tsarist Russia, which, because of her defeat in the Crimean War (1854 - 1855), had been displaying a policy of protection towards the orthodox Christian population living under the Mohammedan yoke, was now localizing her protection on the Bulgarian people. This nation was an admixture of Ugro-Finish (Tatar) groups and slavic elements that lived in and formed part of the Ottoman Empire.[8]

8 - This localization of protective intentions is interesting. Until 1867 there is no mention of a Bulgarian nation as forming part of a slavic brotherhood. Proof: the two Pan-Slavist Conferences at Prague in June 1848,

(Cont. on p.16)

An atmosphere of unreasonable chauvinism was created in slavic academic circles, and extensive studies of the Byzantine Empire were undertaken in Russian universities, directed towards the political consequences of a proof of this chauvinism.[9]

It was in such a political environment that the Russo-Turkish War of 1877 broke out. After the Russian victory at Plevna in December of the same year a treaty of peace between the two empires was signed at San Stefano, a suburb of Constantinople (1878). By this treaty the European part of the Ottoman Empire was practically dismembered and Bulgaria of San Stefano was created.

The consequences of this pact were immense. The Western powers received the San Stefano treaty with an

8 - (Cont. from p.15) and Moscow in May 1867, dismiss the matter as simply non-existent.

9 - The Byzantine historical analysis is the old story of considering science and history as sub-serviant to political aims. The West, since Montesquieu (1689 - 1755), had expressed the opinion that Byzantium had been a Greek empire since the second half of the 6th Century, A.D. The East developed two schools. One tried to create an historical basis for its slavic chauvinism, the other, admitting the Hellenic character of Byzantium, claimed the Dardanelle Straits for Russia and recognized the political rights of Greece in Constantinople. Among the adherents of the latter theory are Professors Alexieff and Kotliarevsky. A summary of the above situation is given by Max Hoschiller in his "L'Europe Devant Constantinople", Librairie des Sciences Politiques et Sociales, Paris 1916, p. 78-81.

outcry of protests. Not only were their vital interests left unprotected, but also territorial rights of the Serbs and Greeks were put aside. A considerable volume of literature resulted with the authors striving to produce evidence, incontrovertible sometimes, of the unjust consequences.[10]

In June, 1878, the Berlin Conference convened and many points of the San Stefano Treaty were annulled. This agreement detached many European and Asiatic territories from the Ottoman Empire but averted a complete dismemberment, as provided for in San Stefano. Provisions concerning the creation of Bulgaria were annulled. Instead, the territory provided for in San Stefano was divided in two with Mount Aemos the boundary. The Northern part was proclaimed an independent principality and named Bulgaria;

10 - Although the appearance and the unreasonable extremity of the Greek accusations may lead one to regard them as equally chauvinistic, it is absolutely fair to state that there is abundant proof in the writings of contemporary authors of various nationalities, based on concrete ethnological and statistical grounds, that San Stefano was a "monstrosity".

Other authors:
Bianconi: Ethnographie et Statistique de la Turquie d'Europe et de la Grece, Paris, 1877.
A. Synvet: Carte Ethnographique de la Turquie d'Europe, Paris 1877, p.16 and p.38.
A. Synvet: Les Grecs de l'Empire Ottoman, Etude Statistique et Ethnographique, Constantinople, 1878.

(Cont. on p.18)

the Southern part became a partially autonomous province of the Ottoman Empire under the name of Eastern Romelea. Seven years after the Berlin Treaty (1885), Eastern Romelea was seized by the Bulgarians (North)[11] under the indifferent auspices of European diplomacy. The Greek communities of Romelea with a total population of 100,000 people, were subjected to the most systematic extermination by the Bulgarians.[12]

Nevertheless, the Greek frontiers were further expanded with the annexation in 1881, of Thessalia (now the central province of Greece) and Arta (northwestern Greece) by virtue of the Constantinople Conference which was provided for by the Berlin Treaty.

But the seizure of Eastern Romelea (south) by Bulgaria (north) was only one of the far reaching consequences of San Stefano.

It also caused the War of 1913 in the Balkans as the Bulgarians based their claims on the San Stefano arrangements. It fostered a megalomania and aggressiveness that led Bulgaria to side with Germany in both World Wars

10 - (Cont. from p.17)
E. Stanford: An Ethnological Map of European Turkey and Greece with introductory remarks. London 1897, p.12.
Amadore Virgili: La Questione Roumeliota e la Politica Italiana, 1908.

11 - The similarity with modern Korea is not incidental.

12 - Bishop Photios of Irinoupolis: Documents and historical

(Cont. on p.19)

and even turn against the Russians by whose blood Bulgaria had obtained her liberty (Russo-Turkish War - 1877). It further created a rift between the Bulgarians and Serbians while the still Turkish held Greek Province of Macedonia suffered a wholesale massacre at the hands of the Bulgarian Comitadjis.[13]

The Comitadji movement was the culmination of the conflict for secular power between two churches: the firmly established Christian Orthodox Patriarchate of Constantinople, and the young Bulgarian Exarchate.

The Oecumenical Patriarchate was a very powerful institution. As early as 1453, immediately after the complete subjugation of Byzantium by the Turks, Mohammed the Conqueror entrusted to it all economic, judicial, administrative and ecclesiastical privileges he thought advisable to concede to the conquered Balkan peoples. Later, the Patriarchate became also the centre of underground resistance against the conquerors.

After the localization of the Russian protection in the Balkans, the Bulgarian Exarchate was created. The Russian diplomacy was very much aided in this success by

12 - (Cont. from p.18)
notes on Bulgarian policy and Bulgarian atrocities, for the extermination of the Greeks in Eastern Romelea (in Greek), Athens, 1919.

13 - Partisans of the "Bulgarian Committee".

the hostile tension that existed between the Turkish government and the independent Greek nation at that time.

The struggle between the secular powers of the two churches that ensued was nothing new. It was the reverberation of all voices coming from a feudal background. There is, however, a very important aspect. Due to the existing political conditions, the institutionalization of the Greek Church had not the end in itself of linking the existing social structure. It was serving a cause far beyond the apathetic limits of that end. The Church was revolutionary. It was, indeed, a nearly unique phenomenon; a feudal society, united by the Church, which was striving to lead it towards a political and economic revolution.

The wholesale massacre started as soon as the young Bulgarian Exarchate set as its objective the separation of part of the population of Macedonia from the patriarchial jurisdiction. The objective was difficult to attain with peaceful means, so a situation was created strikingly similar in background to that which Greece went through after the Second World War. A revolutionary body called the "Bulgarian Committee" was created and a miniature army was recruited, the Comitadjis. Their activities lasted for twenty-four years and the systematic massacre

in the at that time still Turk-occupied Province of Macedonia assumed staggering proportions.[14]

This religious strife had influenced the Young-Turk movement of 1908. Although it had all appearances of a severe nationalism, its religious foundations were very prominent. It was a Mohammedan vs. Christian movement and its consequences were the following: Firstly, the re-establishment of the fading leadership of the Patriarchate of Constantinople against the Mohammedans; and, secondly, it hastened the alliance of Serbia, Greece and Bulgaria with pacts providing for the further dismemberment of the European Ottoman Empire.

In the beginning of October, 1912, War broke out between the Christian Balkan countries on the one side and the Ottoman Empire on the other. The time was well calculated. Turkey, engaged in the Italo-Turkish War of 1911 could not, because of the activities of the Greek fleet, transport its forces concentrated in Africa. The Empire was defeated after a short war following which something entirely unexpected occurred. Bulgaria attacked

14 - The destruction of Krousovo, Anchialos, Stenimachos and the blowing up of the s.s. "Guadalquivir" in Salonika were all effected in the period of two years.

her former allies. On June 16th, 1913, Bulgarian forces attacked simultaneously the Greek and Serbian frontiers with neither pre-declaration of war nor pre-interruption of diplomatic relations.

The cause of this new conflict is simple. The treaties signed in 1912 that provided for the partition of the Turkish Empire entrusted the distribution of certain disputed territories to the arbitration of the Tsar. Greece and Serbia accepted this arbitration. Bulgaria refused and attacked suddenly. The duration of the War was just one month. Rumania and Turkey joined Greece and Serbia with the result that Bulgaria was crushed.[15]

15 - The elaboration of details concerning international complications of this war is outside the scope of our study. We wish, however, to point out that:-

(a) The atrocities perpetrated by the Bulgarian Army on Turkish, Greek and Serbian populations were of an unprecedented extent.
See: Les Cruautes Bulgares en Macedoine Orienale et en Thrace, (1912-1913). Faits rapports, documents, temoignages officiels, Athenes, 1915.
Seton Watson: The rise of Nationality in the Balkans, London 1917, p. 276-277.

(b) Official Bulgarian attitude absolves the Bulgarian nation of any responsibility although admits that the army was ordered to attack first!
See: Guechoff (Prime Minister of Bulgaria, 1911-1913): L'Alliance Balkanique, Hachette, Paris, 1915.

The long disputed Macedonia was added to the existing Greek territory by the Bucharest Treaty of 1913, along with the Province of Epirus (northwest part of Greece) and the large Island of Crete; while the islands near Asia Minor were annexed by virtue of the arbitrary decision of the 6 Big Powers in 1914.

C. THE LIMITING FACTORS

In the past section, we briefly recorded the historical conditions under the pressure of which the Greek economy had to work and which pressures the economic resources of the country had to sustain. We shall now consider the limitations on the development of production and productivity caused by both the geographical position of the country and its economic and political history.

But before entering the analysis of the limiting factors, we wish to point out that one is astonished by the fact that a single factor can be clearly distinguished amidst the antithetical elements of each historical situation. The writer is inclined to believe that an analysis of Greek economic history based entirely on the principle of contradiction, would not be able to explain adequately the fierce outbursts for survival that occurred during

the historical ages, unless one has recourse to the psychological impact of Greek classicism. This impact invested itself in the form of tradition and its survival was attempted by the Byzantine period. Under the Ottoman occupation this tradition was transformed into nationalism. The aristocratic contempt shown by the subjugated Greeks towards the inferior conquerors had something to remind us of the Platonic idiocrasy and the Aristotelian heritage.[16]

The geographical position of Greece was from the beginning of history an obstacle to the physical productivity of the land. Continental Greece, surrounded by seaways, had to resort to an early development of commerce. The lack of natural resources and the highly entrepreneurial spirit of the Greeks contributed to the establishment of a vast colonial empire during the classical period. Exactly the same geophysical limitations forced the Byzantine economy to gear around the revenues of the inter-Mediterranean commerce. It was after 1830 that the national economy had to overcome another obstacle of a subjective nature, the impact of the Turkish occupation.

16 - The Greek folklore of the period is full of indisputable proof. The elaboration of this does not concern us here.

Geographical Obstacles.

The Greek soil, dry, rocky and mountainous, was always insufficiently accounted for by all who criticized Greek economic policy and development. The few existing plains were infected by malaria and the country population had to live on elevated soil for sanitary reasons alone. The everday transportation to the plains caused a loss of precious working hours and a rise in disutility.

The dry Greek climate, very favourable to the tourist, is extremely bad for agriculture. Widespread seasonal fluctuations in harvesting are usual phenomena. Poor natural irrigation contributed to the extremely low productivity of the land.

Briefly, we may attribute the geographical obstacles to the following natural causes:

(a) Insufficient plain area. The importance of this obstacle may be better appreciated by the fact that only 20% of the soil available can be easily cultivated. The total land (except Macedonia and Western Thrace) translated into acres was 15,887,952.[17]

17 - Original computations in metric measure (Hectare) translated here into its English equivalent (Acres). The relationship is: 1 Acre = 0.4046 Hectares
1 Hectare= 2.4710 Acres
See: J.A.M. Gaboury: Tables of Conversion Factors, Montreal, 1949.

Plains (acres)	3,179,146
Lakes and Marshes	217,600
Mountains	12,491,206
	15,887,952

(b) Soil formation and water flows. Complete absence of navigable rivers, folded mountains with high slopes, torrents with unregulated beds, lakes that change into marshes during the splendid Greek summer, are the typical barriers to the development of a good and dependable transportation system.

(c) The lack of cereals. Due to the above direct natural causes, the cultivation of cereals to an extent sufficient to meet domestic needs was and still is impossible. Greece, like Italy, although primarily an agricultural country, had to import grain throughout her history. An average of 30% of the nation's cereal needs have always been imported.

(d) The uneven regional structure of the land ownership. With the exception of the Province of Thessalia and some other districts of Continental Greece, the country was characterized by extremely small scale land ownership. This uneven regional distribution combined with the Turkish land regime stood as an obstacle to the realization of the objectives of early economic policies.

Historical Limitations.

The Turkish occupation that lasted for nearly 400 years deeply affected the social and economic life. It

produced a marked change on the psychology and propensities of the nation.

In the first place, conditions were such that the idea of productive labour was invested only with disutility, while the mixture of a de facto small property system with feudarchy (in Thessalia) made the success of a rational economic policy by the Church impossible.

The life for the Greek peasants in the Turkish colonial tchifliks (big estates) was brutal. Their status was more that of a slave than of a human being. Tyranny forced a considerable number of the inhabitants to gain the mountains as guerillas (kleftes). Because the Turkish administration of the occupied territory confiscated all available production above that necessary for subsistence, productivity was driven to a complete stagnation.

The conditions of the few provinces and localities that succeeded through armed force in obtaining special autonomous privileges were slightly better. Here a primitive allocation of productive resources was effected, but still the supply of labour was limited and inelastic. The reason for this was that the guerilla profession was more suitable to national traditions and a large part of the population was living in nomadic

mobility on the peaks of the mountainous country.

Furthermore, the revolutionary tendencies of of the population proved to be very destructive. On the slightest hope of liberation the whole nation would revolt.[18] Turkish reprisals were concentrated in the destruction of all physical capital that did accumulate in the meantime. When the 1821 Revolution finally came to an end the territory had nearly been erased. The decade of this war (1821 - 1830) left deplorable economic conditions.

The effort at resurrection was considerable. "When the Turks were chased away no human effort, it seemed, could ever repair the immensity of destruction", writes a French diplomat. He continues: "Eighty-five years have passed. Let us consider Greece of today (1916) and we are very near to a miracle. I went through the country, I have seen green pastures of a tropical vegetation, I have seen roads that link the villages, resting in their daily calm. I have seen railroad tracks linking all the white cities that were occupied in their laborious sounds. It is a resurrection in the proper meaning of the word; a corpse brought back to life in full youth. The accomplished task is considerable. It is only by looking back to thepast that we can judge

18 - i.e. 16th and 17th Century revolutions incited by the Venetians; the Russian instigated revolution of 1769.

impartially the present and study with the same spirit the economy of Modern Greece".[19]

But the impact of the Turkish occupation affected the evolutionary propensities to a far greater extent than modern writers on this subject wish to admit. The idea of easy profit with all its consequences on investment and capital accumulation and the revolutionary tendencies against any master is still rooted deeply in the spirit of Modern Greece. It was indeed not an easy accomplishment for the kleftes and peasants to change overnight into conscientious workers.

Although there is nothing to prove that these psychological influences could not easily have been used to increase productivity, the policy of the Greek political parties encouraged a decrease. Many current unsolved economic problems have their deep roots in this impact.

Many of the modern Greek economists, trained in the use of static Austrian macroeconomic tools, criticize any Keyensian approach using as their favourable argument: "the Greek reality". However, no attempt has been made to explain this argument. The everyday citizen wonders whether academic economics are not really the greatest

19 - M. Lefeuvre - Meaulle. La Grece Economique et Financiere. Preface by Mr. Paul Deschanel, Paris, Alcan, 1916, p.9-10, (in French).

obstacle to the prosperity of the nation. The "Greek reality" has become the Smithian "invisible hand", with all the implications that an exaggerated mystical touch can produce. The limitations discussed in this section outline faintly the problem. The solution to this enigma will emerge by itself at the end of the present thesis.

D. THE STRUCTURAL EVOLUTION AND PAST FISCAL POLICY.

The limitations on productivity, discussed in the previous section, naturally influenced the development of the private sector of the Greek economy. The geophysical obstacles had to be eliminated first. With the existent scarcity of capital there was no alternative allocation of resources except into agriculture. Government policies, traditional to the accepted doctrine at that time, concentrated their activities on questions of equity, debt payments and tax techniques. The private sector was left alone to find its own economic potentialities. The rate of growth, therefore, was small.

Agriculture.

In agriculture the equality of the soil, as we have mentioned already, was unsuitable for producing

cereals. This problem was intensified by the increase in population, while the acquisition of fertile lands (Macedonia) somewhat simplified it. The density ratio of the population increased from 19.76 inhabitants per square kilometer in 1907 to 36.67 in 1920. The expansion of the frontiers, on the other hand, added approximately 67,000 square kilometers,[20] or 25,868 square miles of land that nearly doubled the existing plain area of the country.

Efforts were concentrated in raising the productivity of land suitable for cereals and allocating the remaining surface to the cultivation of other products fitted for the nature of the soil.

The production of cereals more than doubled between 1880 and 1915 as the following table demonstrates:

Years	Average yield per acre (Kilos)	Years	Average yield per acre (Kilos)
1860	16.18	1923	226.58
1911	392.46	1924	182.07
1914	327.73	1925	267.04
1915	267.04	1926	258.94
1916	246.81	1927	287.27
1917	299.40	1928	267.04
1918	343.91	1929	250.85
1919	250.85	1930	190.16
1920	283.22	1931	202.30
1921	295.36	1932	311.54
1922	230.62	1933	449.11

Source: Annuaire Statistique de la Grece 1938, Statistique General de la Grece, Athens, 1938, p. 438. The averages given in our source are per ⅛ royal "stremma". We converted for the benefit of the English reader these averages into yields per acre. The relation is: 10 royal stremmata = 1 hectare x 0.4046 = 1 acre.

20 - See Appendix: Territorial Evolution, (c).

However, in spite of these efforts, Greece still had to import cereals to supplement her own production. The degree of sufficiency of home production in respect to annual consumption varied from 30% in the early twenties to 64% in the late thirties.

The allocation of the remaining land resources resulted in the extensive cultivation of olive trees, tobacco, Corinthian raisins, vines, fruit trees, cotton, and potatoes. These represented 70% of Hellenic exports.

With respect to wheat, we must make an important observation. Although the average yield per acre between 1911 and 1932 remained more or less steady, with minor seasonal fluctuations, it is only after 1933 that the average yield value increased and then by roughly 35%[21] owing chiefly to the introduction of new agricultural techniques.

It is astonishing that the available literature on Greek agriculture does not mention the fact that, while the average per acre yield remained stable between 1911 and 1932, the continuous utilization of increments of agricultural labour brought a per capita diminishing share

21 - Prof. Athanace J. Sbarounis in his English publication: "Two Reconstructions of Greece", National Herald, New York, no date, commits an error. In p.12 he gives two values: 242 kilos for the average 1920-1924 yield and 374 for 1935-1939, showing an increase of approximately 55%. Our computations use the official figures of the Statistical Annual of Greece 1938 (p.438) that

(Cont. on p. 33)

of the physical product.[22]

The increments of this labour were supplied by two sources:

a) Natural growth of population.

b) Exchange of populations between Turkey and Greece. A flow of one million five hundred refugees were forced to return to Greece and were given a share of the land. This re-distribution is primarily responsible for the diminishing per capita returns.

Industry

While agriculture was thus struggling against physical and subjective obstacles the industrial evolution of the country was faced with severe difficulties.

Before the War of Independence, handicraft industries were fairly prosperous in certain semi-autonomous districts, but these industrial communities perished under the punishment of the oppressor. The liberation of Greece found European industry, and particularly English industry, in the final phase of the industrial revolution. Inter-

21 - (Cont. from p.32) are given in stremmata. The mean average value for the period 1920-1924 is 60 kilos per stremma. This multiplied by 10 gives the average of 600 per hectare. 600 x 0.4046 = 242.76 kilos, is the value per acre. The 1935-1939 average must similarly be roughly 85 kilos per stremma, 850 per hectare and 343.90 kilos per acre. We use the internationally accepted conversion factors mentioned in footnote 17. The increase therefore is 41% and not 55%, and this for the limited range of years that A. Sbarounis uses. A wider range will, naturally, decrease the above average increase.

22 - It is discussed in detail in Chapter 7, while the cost of the land reform to the state is given in Chapter 4, Section B.

national competition due to lack of capital was impossible, and, as a natural consequence, these handicraft industries were confined to rural districts.

However, expectations were great and labour and capital began to organize themselves. The infantile industrial development that resulted had to overcome: a) the obstacle of foreign competition, b) physical limitations concerning raw materials, c) financial limitations caused by the individualistic nature of the Greek citizen,[23] and d) technical limitations due to the lack of experienced skilled labour.

In 1867, Greek industry was limited to 22 factories[24] with a total of 86 H.P. (flour mills and tanneries). The situation looked better after 1880 but progress was slow, owing to the unscientific nature of entrepreneurial ventures.

In 1917 Greek industry was composed of:[25]

1180 small industries (1-5 workers)
729 medium " (6-25 ")
278 large " (25 and over workers)

2187 Industries total.

Labour force employed: 35,399.

23 - In 1906 there were only 6 corporations in the whole of Greece (Gas and electricity corporations excepted.)
24 - Mansolas, Statistical Information on Greece (in Greek), Athens (no date).
25 - Industrial Census 1917.

In 1920 there were 33,811 industrial enterprises with a total of 110,673 H.P., employing 103,777 workers and 5,381 salaried personnel, with 45,475 directors or proprietors. In 1928, the total labour force employed in industrial activities was 429,831.[26] The market value of industrial production in 1929 was roughly 100,000,000 gold U.S. Dollars.

The vitality and resourcefulness of this rising industry were clearly shown during the period immediately after 1915. War shortages in precious commodities such as the lack of fuel oil, sugar, and coal, were sufficiently and successfully substituted for by locally produced competitive goods.

As a summary we offer the following overall picture of the structure at the beginning of the twenties. It is unfortunate that there are no available figures prior to 1928 for this purpose. However, we have no reason to believe that the picture in 1920 would unveil a different structure except perhaps an increased emphasis on agriculture and other minor readjustments.

26 - Annuaire Statistique de la Grece, 1930. Athenes, Imprimerie Nationale 1930, pp. 177, 178 and 182.

Occupational distribution of population, 1928.
(Percentages)

Agriculture and fisheries	61.10	Communications	3.02
Mining	0.27	Defence	0.87
Commerce	8.63	Public Administration	0.96
Merchant Marine	1.41	Liberal provisions	3.56
Industry	17.80	Domestic services	2.38
		Error	0.00
			100.00

Source: Annuaire Statistique de la Grece, 1934, Athens, p.501.

The Public Sector of the nation's economy had since 1830 (de jure recognition of the Hellenic Independency), been confronted with a clearly outlined problem. Public expenditures were rising, as refugees hit by war and devastation were unable to exist without governmental help. Revenues were negligible: war had destroyed practically all sources of income. Capital was needed badly, in order to repair the ruins. Security, the lack of which was threatening the interior of the country, had to be guaranteed in order to realize the development of production. Thus the continuous budgetary deficits of the young nation striving to maximize its welfare, continuous political uncertainty and foreign speculation

and exploitation[27] brought early Greek public finance to an alarming point. There was no other alternative for the responsible administrators but to seek continually for foreign aid.

The early history of Greek public finance may be defined as a history of public borrowing within the framework of the accepted doctrinal conception of fiscal ends. This conception of fiscal policy was another obstacle to the rate of growth of the economy. Fiscal policies and public finance techniques were confined to holding government expenditures to a minimum and paying the cost of national debt. The expenditures, thus, were primarily of a "personal" type during the early peace period (Civil service salaries). They started to become functional with the gradual industrial development of the country and with the emergencies which later occured.

It is true that the contraction of domestic debts was also attempted but this was chiefly due to the fact that continuous "bankruptcy" tendencies or situations made the attraction of foreign capital impossible. These attempts were limited by the fact that the status of the

27 - Extremely informative and interesting data concerning the exhaustion of the first important loan (the £64,000,000 given by the protective powers, which established King Otto's dynasty in Greece) are given by A. M. Andreadis: "Public Debt of Greece During the

(Cont. on p.38)

private sector was underdeveloped while undergoing a structural change.

A very important observation concerning the implications of this borrowing must now be made.

Those early foreign loans were utilized to help in procuring outside resources to carry on wars or provide relief from wars, to finance refugee settlement schemes and in other general emergency situations. The carrying charges of these foreign-held debts went mostly outside the borrowing country, and these loans failed to raise productivity. They were used mostly for balancing budgetary deficits while simultaneously the government created money through printing in order to realize its program for pensions and relief! As we shall elaborate in Section D of Chapter 5 only the 11.77% of the borrowed foreign funds were used between 1898 and 1923 for public investment. The complete lack of planning accounted for the failure of this fraction to raise output and productivity. In fact, the amount of product available for domestic use was reduced because these loans did not add to total product by as much as the carrying charges involved.

Consequently, these loans were not only economic

27 - (Cont. from p.37)
Bavarianarchy" in his Opera, Law Faculty, Athens, University, 1938 (in Greek); Vol. 2, pp. 332 - 337, Brokerages and unnecessary expenses of viceroys and visiting Bavarian Armies completely exhausted this loan.

burdens upon the citizens of the country, but also political and social obstacles of great importance.[28]

The nature of the Greek fiscal policy was, therefore, concerned with the service of existing and procurement of new foreign or domestic loans.

For the purpose of this chapter we may briefly outline chronologically the periods of Hellenic public finance policy.

1826: Bankruptcy of the revolutionary administration.

1832-1843: Period of foreign borrowing.[29]

1843: State of bankruptcy declared. Suspension of service payments.

1844-1861: No foreign loans. Middle class taxation and tax relief of agricultural class. Revenues from direct taxes were doubled.

1861-1878: Domestic short-term borrowing was effected to satisfy budgetary cash deficits. But deficits were continuous. Foreign capital markets influenced by the 1843 bankruptcy, were reluctant to supply loans. Unstable political conditions aggravated the situation.

28 - International Finance Controls, and the redistribution attempts of the taxation schemes.

29 - £64,000,000 loan granted by the protective powers. See also footnote No. 26.

Domestic loans were effected with very heavy terms. Budget expenditures constituted primarily payments for the servicing of the public debts (40% of total revenues).[30]

1878: Settlement of bankruptcy situation of 1843.

1879-1893: Period of foreign borrowing and taxation. Foreign loans were contracted in gold. Expenditures were rising due to military and productive causes (railroads). Pressure of foreign-held loans and deficits resulted in the

1893: Third Bankruptcy of the Greek State. Suspension of capital payments. Reduction of interest to 30% (law of 9th and 10th December 1893).

1897 (18th February) Voluntary Settlement.

1898: Imposition of the "International Finance Commission" for controlling governmental finances.[31] Its nature, power and results are discussed in Part II.

1899-1909: Expenditures continue to rise. Causes: regularity in contracting public debt

30 - Budget of 1879: Revenues 45.800.442 gold drachmas
Public Debt Service: 17.328.888 " "

31 - The term "International Control Commission" as implying "savouring servitude" was changed to "Commission Financiere Internationale".

obligations. Productive expenses. Bad management. Revenues adjusted at higher levels by non-systematic tax levies.

1909-1912: (September) Period of budget surpluses. Rational management of public sector.

1912 (Sept.)-1913(Nov.): Financing the two Balkan Wars. Utilization of previous surpluses and recourse to short-term bank borrowing.

1914-1916: Inter-war period for Greece. Expectations of eventually entering into the First World War kept military expenditures high. Expansion of frontiers contributed to the growth of expenditures. Money was created. Increasing need for systematic taxation.

CHAPTER 2

THE CYCLE

In Chapter 1 we recorded the background of the Hellenic resources and gave a brief account of the limitations to the development of the full potentialities of the economy. The economic structure that ensued and the role of foreign capital as a necessary substitute for internal capital were outlined. Now it is necessary to go a step further. We have to establish briefly the relationships of this structure with the ebb and flow of international economic activity.

The twenty-one years of interwar peace between November, 1918, and September, 1939, were among the most formative in history. The world experienced amidst political innovations and unemployment a steady rise in its standards of living. But progress was at a much slower pace during this period than before 1914. It is not our intention to determine whether outlets for investment had become scarce or the economic conditions abnormal. Probably the influence of the scarcity of investment outlets and abnormality in socioeconomic

conditions accounted for the three outstanding features that characterized this era. It was a period of dislocation, insecurity and experiment.

The first five years in Greece as well as in all other countries were dominated by laborious attempts to recover from war, inflation, booms and slumps. The next five were the good years of relative prosperity only to be followed by the greatest trade depression ever recorded in economic history.

Direct governmental controls was the answer of societies to this insecurity. Economic ideas were invested in political power and new, experimental forms of government were born.

This whole period won't be the subject of our present study. The last interwar decade is left out simply because of the chronological limits of this thesis which end with the Great Depression. The first twelve years are divided into two further periods. The year 1925 was chosen as the division because it marks the termination of uncertainty in political relations as well as the end of the period of postwar reconstruction.

A. 1918 - 1925

The world, as a whole, found itself at the end of World War I in a condition quite familiar to us now. The aftermath of World War II is simply a repetition.

Two regional problems had to be solved after the collapse of Germany: (a) relief to the peoples of the devastated Central and Southeastern Europe which included Greece, (b) reconversion from war to peace in Western Europe and United States.

In the first place, the allied blockade had left the peoples of Central Europe and Greece in a state of semi-starvation, and agricultural output was so low that there was no prospect of their ability to feed themselves without imports. Extensive physical destruction caused by war action added to their distress. Further in the East, Russia had been exhausted by the Civil War. Productivity declined everywhere.

In Western Europe and the United States the problem was mainly that of reconversion. No acute distress from famine or physical destruction was experienced. Expectations were such that a slump was anticipated due to the fact that effective war demand had been curtailed.

These fears proved to be unfounded. After the slight recession of March, 1919, a powerful boom occured that simplified the problem of reconversion. Industry both in Britain and the United States absorbed immediately the labour that was demobilized, and prices shot up to new heights.

Purchasing power which had been accumulated during the war was freed and the effective demand, thus created, caused a desire to replenish stocks. The public sectors of the economies, still financed under conditions of deficit budgeting, were creating additional purchasing power and the multiplier and relation were working towards inflation.

Prices began to fall in March, 1920, when factories started to meet the accumulated demand[32] in Western Europe and the United States.

The areas of Central and Southeastern Europe, and naturally Greece, suffered the greatest dislocation and prices continued to rise. The Austro Hungarian empire was torn apart and new countries were created. Physical destruction promoted chaotic conditions. In Greece at the beginning of 1920 only 76 locomotives and

32 - See: League of Nations, Economic Fluctuations in the United States and the United Kingdom, 1918-1922, Geneva.

86 waggons were fit for service.[33] Governments were disrupted and administration had to be created from nothing.

Moreover, fierce nationalism added to the economic troubles of that region. The new countries that had been created from the old Austro Hungarian empire incorporated in their nationalistic policies severe import and export prohibitions. Trade in the region that included Greece was thus strangulated.[34]

This nationalism had such an effect on economic conditions that Austria and Hungary soon collapsed. Germany, Russia, Poland, Czechoslovakia and Greece experienced major or minor inflations.

Analytically, the inflationary trends in Greece and the other European countries have their roots in: (a) dislocation, and (b) uncertainty of expectations that followed World War I, and (c) irrational methods of financing reconstruction. The above primary factors affected differently the region that included Greece from the economies of Western Europe.

(a) Western Europe - Suffered no dislocation. She was confronted only with the problem of reconversion from war

33 - League of Nations Publication: Europe's Overseas Needs 1919-1920, and How They Were Met. p.8.

34 - By signing the Portrose Protocol these countries engaged themselves to abolish all controls but the Protocol was never ratified.

to peace. This reconversion was facilitated by the favourable turn of expectations. Accumulated purchasing power and deficit financing were the endogenous stimulants.

(b) Greece and Central, Eastern and Southeastern Europe - Suffered primarily from dislocation. Abnormal economic situations were created and the causes for the inflation that followed were the following:-

aa) Need for relief and the creation of foreign-held loans to finance it.

bb) Lack of capital.

cc) Tncrease in the organization of labour, which, combined with the influence of the Russian Revolution, produced a steady pressure on the governments towards social reforms and higher wages.

dd) Nationalism that created an adverse balance of payments through the strangulation of exports causing, thus, direct depreciation of the national currencies.

ee) Printing of money as a medium of balancing the budget.

ff) The lack of a "functional" approach on the part of the economic advisors of the lending nations.

gg) Unproductive use of the foreign-held loans, consumed in relief purposes only, and the insistence of the lenders on high interest rates.

hh) The establishment of rigid international controls on the domestic economies of the debtor nations. These controls aimed at the

> realization of high interest rates. Fiscal monopolies were created, the revenues of which were used as an escrow. Rigid monopolistic sectors within the national economies were created by law. (Turkey, Austria, Greece, etc.)

Combinations of the above causes produced the well-known inflationary movement: prices rose faster than wages.

Austria, Hungary, Poland, Germany and Russia[35] suffered "major" inflations and their currencies became valueless. Greece was among the European countries in which "minor" inflations occurred. The Greek currency, the drachma, was eventually stabilized below the prewar par, and the ratio to its dollar value was established at 6.7 per cent.

Other countries included in this group were the following:

> Rumania (2.4 percent), Yugoslavia (3.8 per cent), Bulgaria (3.8 per cent), Portugal (4.7 per cent), Czechoslovakia (14.6 per cent), Finland (13.1 per cent), France (19.4 per cent), and Belgium (23.3 per cent).

Parity with the dollar was achieved by only seven European countries:

> Britain, Switzerland, Sweden, Norway, Denmark and Holland.

35 - The Russian inflation has a more spectacular aspect. Whereas in other countries the currency appeared to have collapsed, in Russia production suffered the same fate.

The year 1925 was just as much the turning point in economic affairs as it was in the political atmosphere. While the latter was clouded with the debate over the treatment of Germany, the acceptance of the Dawes Plan (1924) and the Locarno Pact (1925) did much to disperse the air of mutual suspicion. The world settled down to an era of cooperation.

As for the international economics, 1925 marks the year during which the volume of world trade passed its prewar level and European production rose. Despite the dislocation that created a new balance of power, the world index of manufacturing in 1925 stood at 121 as compared to 100 in 1913.

To conclude this brief survey, may we state that three economic factors predominated during this period:

(a) Shortage of capital in Europe reflected in the unfavourable terms of its supply.

(b) The recession of 1921 in United States, which did not affect Greece or the other Southeastern European countries.

(c) Hindrances to the development of intercontinental and world trade.

The rate of growth was reduced to a smaller pace than before 1918. While in Western Europe and the United States the slump was of greatest significance, in

Greece and the countries of Southeastern and Central Europe the shortage of capital combined with their economic structure proved to be the most important impediment to their rate of economic growth. The boom and slump created an abnormality in the first group of economies, while the lack of capital endangered the very rate of reconstruction and growth in the second.

The slump had its origins in speculative motives. It was unavoidable at that time due to the accumulated purchasing power and lack on the part of government of a functional approach in economic problems. Had the economic assistance to Greece and the other European countries been received sooner, their demand would have been maintained, the slump would have been delayed and the rate of capital accumulation in these underdeveloped areas accelerated.

International loans were made mainly to those countries which were strong and solvent like France rather than to the weak like Greece. Lending nations wanted a secure financial investment without realizing the latent danger to their home economies,[36] inherent in the decrease in demand of the weak countries for their products.

36 - The League of Nations Reconstruction Loans (Austria 1922, Greece 1923, Hungary 1924, Bulgaria, Estonia 1926) were long delayed. The slump in the developed countries had already occurred.

B. 1925 - 1929

From 1925 to 1929 prosperity seemed to return. A feeling of confidence characterized the political and economic atmospheres. Productivity generally increased with the almost unique exception of Greece and the industrial output of the world ascended to a new peak.

In the United States gross capital formation was as high as 21 per cent of gross national income in 1923 and this ratio was kept throughout the twenties.[37] Credit conditions and investment opportunities were excellent, and the prosperity of the United States spread throughout the world. Imports were high and the producer countries acquired substantial dollar balances.

But the situation in Great Britain was different. Unemployment was high and concentrated in the export sector of the economy. The return to the Gold Standard and the relative overvaluation of the pound combined with poor technology and the traditional "quality" policy of production, made British export prices too high. Although the wholesale price index in Great Britainfell from 160

37 - W. Arthur Lewis: Economic Survey, London, Allen & Unwin, 1949, p.39.

(1925) to 134 (1929),[38] the foreign trade position remained the same, because the decrease in prices was international. The rise in productivity accounted for this face in world prices.

The new Gold Standard, however, was weak. The possibility of holding reserves in foreign exchange form, created a feeble basis for international commerce. These foreign exchange reserves in Greece and other countries were not acquired by export surpluses but through short-term borrowing. The heavy requirements of relief imports never balanced exports. A precarious situation was thus created: any withdrawal of these loans could cause the withdrawal of the country concerned from the Standard.

But the world was unable to realize the inherent weaknesses. Instead it tried to eliminate the international barriers to trade. The Conferences in Brussels (1920), Portrose (1921) and Ganeva (1927), improved the situation, but still, it was felt, many problems had been left unsolved. Moreover, the high level of foreign investment by the United States was unable to correct the weaknesses of the international currency system. Old countries like

38 - Lewis: Op.Cit., p.45.

Greece as well as new could not solve their structural problem: the size of the agricultural sector of their economies. As soon as the level of foreign lending and investment decreased, the inherent anaemia of the economic organisms showed its full effects. Greece inherited a decreasing productivity and a continuous inflation. These problems will occupy us for the rest of the present study.

PART II: NATIONAL POLICY 1917 - 1930

CHAPTER 3

GOVERNMENT OBJECTIVES

A. OBJECTIVES AND THEIR DOCTRINAL LIMITATIONS.

We have by now a general idea of the political and economic framework and the problems that national policy was called upon to solve through the national budget.

But what were the theoretical tools? What was the outlook with which the political economist attempted to maximize national welfare while restoring the economic abnormalities created by the ebb and flow of history? We have repeatedly pointed out that the doctrinal conception of fiscal policy as a policy under which the government uses its expenditures and revenues to produce desirable effects on national income, production, and employment was unknown at that time.[39]

The outlook of the fiscal doctrine was "substantial". It was concerned with fiscal phenomena per se, without enquiring into their functional relationships with the private sector of the economy. Public finance was, academ-

39 - See our Introduction.

ically, an array of tax theories and an analysis of the subjective effects of taxation and of the problem of incidence. Expenditures required very little policy formulation: they had to be kept as low as possible.[40]

It is natural that this conception did influence policy. The existing Greek literature of that time points out clearly that the government had to solve two problems:

a) foreign capital was required for the military necessities

b) the value of the Greek currency had to be kept intact.

The prominent Greek statesman, Alexander Diomedes, clearly recorded that the most outstanding chapters of the economic policy of the government immediately before and after the twenties were three fiscal measures: a) borrowing, b) method of acquiring war and relief supplies, and c) taxation.[41]

Although these were the immediate government objectives the mere fact that the historical pressures required relief and wars required finance made the introduction of a changing aim of fiscal policy unavoidable. The post-war unemployment had to be cured and the imperative circumstances forced the new "functional" fiscal policy into service. The early twenties marked the turning

40 - We had been trained in the above manner as recently as in 1940. Fortunately our divorce with obsoletism was easy enough.

41 - Alexander N. Diomedes, The Economics of Greece - before and after Nov. 1st, 1920, in Greek, Athens 1922, p.7 and p.32.

point as far as fiscal policy is concerned. Although it was early yet for the government to realize the functional causality of its policy, the structural change of the economy was under way. The establishment of income taxation prepared the ground for the use of tax measures to accomplish social ends.

The physical limitations discussed in Chapter 1 were present. But times were changing. Expansion of frontiers and technical advances, promoted by war and other emergencies, promised to increase the total productivity of the nation, while the emergency situations themselves (war and post-war relief schemes) marked the inflationary trend of the period. Labour hesitantly but steadily demanded an increase of its relative share in the distribution of national income, while the monetary framework of the nation had to comply with the interests of the foreign borrowers. These interests were concentrated in maintaining the price of foreign exchange relatively unchanged and exerted themselves through a close financial control (International Finance Control).

The decade under study is thus characterized by a violent though latent struggle of conflicting interests and motives. Unfortunately, the rigidity of control, lack of a functional approach in policy and the unproduct-

ive nature of National Debt were the causes of the unsatisfactory results that hindered an early development of higher output through state activities.

It is interesting to note the observation, mentioned before, that the necessity of a more or less systematic tax policy was chiefly due to the problem of financing wars.

Social considerations did not influence this necessity. Taxation was seized upon as an effective instrument of supplying the national treasury with revenues. The social end was a secondary motive and had no functional meaning. The tax attempt of 1919 in Greece must be, therefore, explained primarily as an immediate revenue supplying venture.

The whole of Part II is devoted to a systematic analysis of the attempted solution to the outstanding fiscal problems of the period. We shall not consider the effects on production and national income until Part III of this thesis where the functional causality of the measures shall be demonstrated. The following pages attempt to answer the question: What were the measures used to cope with a) historical necessities, b) the then accepted fiscal objectives. Part III will attempt to answer what the functional consequences of these

measures were on production, national income and employment.

B. ADMINISTRATIVE LIMITATIONS AND INTERNATIONAL FINANCE COMMISSION.

Newly established states with a devastated territory and with insufficient savings are incapable of covering expenditures with domestic loans. Frequent recourse to foreign borrowing is inevitable. However, besides the legal obligation of paying a debt there must co-exist the economic capacity of paying it. In the case of Greece the capacity of paying long-term obligation was, unfortunately, negative. The impact of historic events was the main cause. As we have seen already, the Greek Government was obliged to suspend payments on the nation's financial obligations in 1827, 1843 and 1893.[42]

A state's bankruptcy[43] may be settled either

42 - The case of Greece must not be considered, by any means, unique. Government bankruptcies were frequent in the early and modern histories of public finance. France and the Balkan States were also bankrupt, and a more recent example can be found in the case of Newfoundland.

43 - The economic aspect of the term is discussed on page 445, Allen & Brounlee: Economics of Public Finance, New York, Prentice Hall, 1947.

by 1) mutual agreement, 2) arbitration, or 3) obligation. The settlement by obligation is followed, almost without exception, by the imposition of an international control that interferes with the domestic policy of the bankrupt nation for the purpose of securing interest payments for the foreign creditors.

International controls, in spite of the early frequent bankruptcies of states, did not appear until 1870 (Tunisia). In 1880 they were applied to Egypt and Turkey; and from 1896 International Control Commissions were established in almost every Balkan State.[44]

The purpose of the international control is to secure the interests of foreign borrowers; it constitutes a legal form of obligatory settlement under supervision.

44 - A. Angellopoulos, in his Public Finance, Athens, (May 1943), page 503, writes the following in Greek which I have translated: "And this (he wishes to explain why the international finance controls appeared in the latter half of the 19th century) was due to the fact that there was an established idea, since long ago, that government obligations constituted not a legal but a moral obligation upon its borrowers, and, consequently, the borrowers had no right of interference for obliging the unwilling state (theory of Drago)".
He mistakingly associates Drago's doctrine that was a result of the imposition of the International Controls and not an explanation of why the International Controls did not appear before 1870.
Drago's doctrine was developed after 1870.
A complete and excellent analysis of the evolution of international controls is given by A. Andreades: Opera II, Athens, 1939, pp.35-61 (in Greek).

This naturally implies the loss of some rights, derived from the concept of legal sovereignty (a sort of national capitis diminutio).

In Greece, the imposition of the international control came as a result of the extensive foreign borrowing of 1879-1893. The interest and amortization payments on this borrowing were so urgent, and the taxation limitations so rigid, that actually no tax revenue was capable of keeping pace with these exigencies.

In 1882 the per capita tax revenue was 20 Dr. and the per capita loan 163 Dr. In 1893 the figures were respectively 37 and 363 Dr. It was practically impossible to apply other measures at that time, such as an increase in exports, to help correct the situation.[45] A rise in the value of foreign exchange followed and nearly two-thirds of total state revenues were diverted to foreign interest and amortization payments. Bankruptcy was inevitable. In 1893,[46] all foreign interest payments over 30% of unpaid principal were suspended. In 1898, the International Control Commission was established as a result of a settlement between Greece

45 - The Corinthian raisin was a principal export item and France the chief buyer. But in 1893 raisin exports dropped nearly three times due to the unusual French production of 1891, 1892 and 1893.

and its creditors.

The principle aspects of the International Finance Commission[46] applied to Greece were the following:

1) The delegates were appointed and withdrawn directly by the six foreign powers. No approval was required by Greece.

2) The revenues mortgaged for paying the interest and the capital were the following:

a) the six fiscal monopolies (salt, cigarette paper, matches, playing cards, fuel oil, and emery of Naxos).

b) Tobacco.

c) Customs receipts of the Port of Piraeus, and, in case of inadequacy, customs receipts of other ports.

d) Fiscal stamp revenues.

A peculiarity should be noted here. These revenues were collected by the administration of the "Corporation of Administration of the Mortgaged Revenues"[47] which was of Greek legal nationality but fully controlled by the International Finance Control.

3) The powers of the International Finance Commission were very extensive. They were not confined only to the Corporation of Mortgaged Revenues but included the right

46 - The name International "Control" Commission was changed as implying servitude to "International Finance Commission".

47 - This Corporation under the name of "Corporation of Monopolies" existed already in 1887. It was formed as a guarantee requirement for the 1887 public debts.

of administrative surveillance of all revenues affected. No changes in civil personnel could be made without its approval.

4) Schemes of interest and amortization. To the existing three groups of national debts special rates of settlement interest were assigned.

a) Debt of 1887 (debt of Monopolies) 43% of initial interest
b) Debt of 5% (1881, 1884, 1890) 32% " " "
c) Loan of 4% (1889) 32% " " "

The newly assigned rates were liable to rise if the real revenues affected were greater than those originally computed. A stipulation was also made to the same effect if the rate of foreign exchange declined.

5) Monetary circulation policy. Greece obligated herself to refrain from creating money through forced circulation and to reduce total circulation by 2 million drachmas per annum. This clause was neglected during the second half of the First World War. France, Italy and England, at this time, the only members of the International Finance Commission, did not insist on this clause because the expenditures of Greece served the cause of the Entente.[48]

In spite of the rigid way in which the International Finance Commission had been established in

48 - 257 million drachmas for paying expenses of the French Army and 116 million Dr. for the English Army (1918). Also the military expenditures of the Asia Minor Campaign incited by the Allies, had to be financed through money creation.

Greece,[49] the economic results judged from the point of view of the creditors were very favourable.

During 1919 and 1920 the entire original rate of interest was serviced and, in spite of the terrible disaster in Asia Minor, payments were continued through the following years. During 1921-1923 group (a) of the creditors (page 63) received 4/5 and group (c) 3/4 of the nominal interest payments.

For the economy as a whole, the results were more important. Confidence in Greek finances was not only confined to the foreign capital markets that were thereafter more elastic in their supply, but was diffused throughout the country itself. Increased domestic borrowing was made momentarily possible by the elimination of uncertainty and the rise of confidence in the sane way in which the public sector was financed.

And while the supply of foreign capital made possible the execution of some productive projects of extreme economic importance (railroad Piraeus to Macedonia) the increasing trend of investment in public bonds allowed the state to rely upon the positive possibilities of this factor in meeting emergency situations (1920).

49 - The general line of criticism in all foreign and Greek literature is based on the following two observations: 1) Loss of sovereign rights and prestige. The members of the International Finance Control were not representatives of the actual bond holders, but diplomatic employees of the big powers. No Greek member was included in the Commission and the nomination of the foreign representatives did not take place with the formal required procedures. It was legally a situation of interference in the domestic affairs of a free nation. A national capitis diminutio. 2) No reduction of national economic burden. Original capital of all foreign debts in the countries where the international control institution was appliedwere reduced considerably; whereas in Greece no reduction was contracted.

A NOTE ON THE GREEK BUDGET ACCOUNTING.

An essential purpose of budgeting expenditures and revenues is to obtain a clear picture of the financial operations of an economic unit.

When the Greek budget was legally formulated by Act 626 of 1915 and amended by Act 6254 of 1934, the importance of fiscal policy for the maximization of real income of the community and regulation of the distribution of income and wealth was hot realized. Real capital expenditures were lumped in with ordinary operating expenditures. This situation remains exactly the same today.

The system applied is that of the single budget, and the expenditures are classified as "ordinary" and "extraordinary". Accepted principles of formulation are the principles of: 1) publicity, 2) singleness, 3) comprehensiveness, 4) unity, 5) specialization, and 6) accuracy. The unity requirement was very neglected, since the government created "Special Treasury Funds" endowed with income and efficiency creating public functions. These "illegally" operating treasuries grew surprisingly in number and importance and, in 1930, there existed approximately 2000 autonomous administrations of public services with revenues amounting to 1/3 of the state's budget.

According to the Act 626 (1915), the expenditures and revenues are tabulated into two further categories:

Revenues and Expenditures of Category I comprise every revenue to be received or outlay to be paid in either the ordinary or extraordinary functions of the state. Category I includes all income, efficiency, utility creating expenditures and excludes revenues and expenditures resulting from "Capital Movements", i.e. revenues effected through public borrowing (domestic and foreign) and expenditures on carrying charges, interest and amortization obligations.

The "Capital Movements" account is legally defined as Category II. This legal classification is not, by any means, to be considered as a "Capital or Investment" sub-

division of the Hellenic Budget. It includes every outlay on capital "borrowed", not outlays on capital goodsinvestment. Self-liquidating capital projects and government enterprises (fiscal monopolies) are included, so far as revenues and expenditures both on operating and capital account are concerned, in the "operating" part of the budget (Category I).

Modern major capital investment projects require two clearly interrelated governmental accounting forms: a) the Operating Budget, and b) the Capital or Investment Budget. Outlays on capital goods investment must be entered into the Capital Budget. This is not only consistent with sound managerial and accounting practices, but the purpose is deeper. By financing this Capital Budget with inheritance taxes, borrowing, amortization or depreciation allowances transferred from the Operating Budget, a clear picture of the Public Sector's impact on the national economic structure can be presented.

It is really inconsistent that the Hellenic State, owning and operating very important enterprises (railroads, post offices, banks, forests, mines, etc.) has such an underdeveloped capital accounting form. Instead of creating decentralized institutions such as all these non-constitutionally operated treasuries, thus losing all possibilities of centralized control over policy, a sound budgetary capital accounting system should be established immediately. A great deal of confusion, bureaucracy and major faults in fiscal policy and its functional goals will be thus eliminated. The functional size and estimation of deficits and surpluses will be weighed. The appearance of an almost balanced budget may be a political asset, but not an economic reality. The Swedish and Danish budgetary systems (1927) are the most logical examples of governmental accounting. For an exposition of these systems the reader may consult: A. Hansen: Fiscal Policy and Business Cycles, Chp.X, p.196, K. Mueller: "Die Neugestaltung des staatlichen Rechnungs- und Revisions wesens in Daenemark", Finanz-Archiv, 1928, pp. 131-139. G. Mydral: Finanzpolitikens ekonomiska varkningar, Stockholm 1934.

CHAPTER 4

E X P E N D I T U R E S

A. THE CHANGING CHARACTER.[50]

Along with a change in ideas about the functions of public finance, important changes in the pattern of public expenditures during the last half century have been effected.

1) There has been a continuous growth of expenditures marked with a change in their character.

2) Increases in internal governmental fiscal transactions.

By 1917 the Hellenic Public expenditures, that amounted in 1833 to 13.5[51] million gold drachmas, reached a high of 317 million or 12,886,000 English pounds.[52]

50 - Official statistics in a systematic form do not exist for the period of 1917-1923. Nor is a synthetic study of the period available in Greek literature. The only really important monography on the subjects is that of A.M. Andreadis: "The Years 1917-1923" in his Opera II, edited by the Law Faculty of the University of Athens, 1938, pp.594-622. Other special works include: A. Diomedes: Finances of Greece before and after Nov.1,1920, Athens, 1922; G. Kofinas: Report on the Budget of 1923. For more general works see ~~the~~ general bibliography. Amidst confusing information resulting from the immediate criticism of the periods of fiscal policy, one must carefully reject all data that merely justify politcal beliefs and criticisms of the writers. Our task, therefore, is extremely delicate.
All computations in this and following chapters unless otherwise mentioned, are original.

51 - By approximate computation.

52 - Rate of exchange in 1917: Dr. 24.604 per Pound Sterling.

The growth of expenditures in the following years is shown in the following table:

1914	485.7	million	gold	Drachmas
1918-1919	1,446.1	"	"	"
1919-1920	1,353.6	"	"	"
1920-1921	1,682.6	"	"	"
1921-1922	2,257.8	"	"	"
1922-1923	3,383.2	"	"	"

The cost of living index rose from 100 points in 1914 (base date) to:

1918	366
1919	323
1920	351
1921	398
1922	636
1923	1189 [54]

A closer comparison of the expenditure figures and the cost of living index will make clear the fact that the growth of money outlay of the Greek Government was almost entirely due to the reduction of money value, caused by war efforts and expansion of frontiers.

53 - Exchange Rates for U.S. Dollar (mean annual price):
1920 9.50 Dr. per $ 1922 37.131 Dr. per $
1921 18.137 " " " 1923 65.548 " " "
Annuaire Statistique de la Grece (1930) Athens, Imprimerie Nationale.

54 - A. Andreadis gives the following figures:

1914	100	1921	421
1918	382	1922	737
1919	342	1923	1213
1920	359		

The figures used in the text are given by the official Annuaire Statistique, 1930, and they include a wider range of goods and services and, therefore, were preferred.

But the change in character of these expenditures can be clearly understood when we contrast the growth of the regular and extraordinary categories of expenditures.

	1914	1924-25	
Regular expenditures	197,559,675	3,363,953,871	Drachma
Extraordinary expenditures	125,695,285	596,552,732	"

Although the Extraordinary expenditures grew roughly 4.6 times, Regular expenditures increased almost 17 times.

The causes are not only a decline in money value, but also:

a) refugee relief schemes
b) pensions
c) marked propensity of dependability on the state followed by an excess of civil servants.

The per capita Regular Expenditures of 1914 were Dr. 41 roughly, of 1924, Dr. 567, or £ 1.6[55] and £ 2.3.[56] In terms of Dollars U.S., $6.40 and $9.20 respectively.

Part of the growth of per capita public expenditures is due to the increasing needs of what has been called "a more complex society". By this is meant the expansion of such functions as the provision of a higher level of education, higher public welfare and assistance, etc.; as well as an increase in the proportion of the population receiving such assistance.

55 - 1914. Population: 4,818,000. Exchange rate of £ 25.182 Dr.
56 - 1924. Population: 5,923,000. Exchange rate of £ 247.381 Dr.

The increases in fiscal transactions between different government levels also affected the pattern of government expenditures. Local activities underwent an expansion during this period of about 68.6%, while receipts rose by 105.9% in 1923-1925.

Increased urbanization resulted in an expansion of such expenditures as those required for the protection of life and property. Services that used to be provided by the household in rural areas could no longer be efficiently provided on the same basis. Consequently, decentralized authorities with sufficient financial power were formed to satisfy these aggregate wants.

B. SIZE OF EXPENDITURES: AN ANALYSIS.[57]

From 1912 to 1923 Greece was in an almost uninterrupted state of war. The Balkan Wars (Sept.1912-Nov.1913) were followed by three apparently peaceful years. The

57 - Hellenic statistical data for the period under consideration are inadequate and confusing. The sources of information fall under two classifications, a) unofficial, b) official. As unofficial sources one has to consider the publications of all the public finance analysts who attempted a critical approach. Their statistical information is inadequate and equally confusing. The main cause for this inadequacy is the consecutive devaluation of the Greek and other currencies, although the dates the above works were published did contribute to the confusing picture. The official data suffer from arithmetical deficiencies caused by a confusion in applying the correct conversion co-efficients of the devaluated currency. For instance consider the Statistical Annual of Greece (official publication of the General Service

(Cont. on p. 71)

expectation that Greece would eventually enter into the First World War on the side of the Entente kept military expenditures high during this quasi-peaceful period. Finally, Greece declared war on Germany in June, 1917.

The armistice of November, 1918, brought no relief to the military efforts of Greece. Military operations were fought in Rumania and Russia (1918-1919) and in May, 1919, in Asia Minor, where the Allied-incited venture became a military duel between Turkey and Greece which ended with the Treaty of Lausanne in 1923. The economic consequences of these military efforts were felt in the three years that followed.

From the foregoing historical introduction it is apparent that military operations absorbed much of the nation's productive effort. The National Treasury had to supply all necessary funds for the direct Military Expenditures and outlays indirectly resulting from or caused by the war.

The following table shows the magnitude of these expenditures:

57 - (Cont. from p. 70)
of Greek Statistics) in Greek and French, Year No. 1, 1930, National Printing House. Totals that are supposed to give the aggregate total give, when added, an entirely different figure.
For the purpose of clarity the present chapter will deal with percentages. It is the only way the exposition of reality can be emancipated from the terror of swollen arithmetic.

(In millions of U.S. Dollars gold)

Military Expenditures	1917 13.1	1918 146.4	1919 156.9	1920-21 109.4
(War Ministries and Transfer Payments to families of recruited reserve volunteers)	1921-22 83.9	1922-23 46.3	1923-24 24	
	1924-25 8.6	1925-26 12.2	1926-27 12.5	

Total = 613.3

The 1924-25, 1925-26 and 1926-27 Military Expenditures are almost identical. The relative rise in magnitude is entirely due to transfer payments to war victims. The upward trend of these defense expenditures was caused by the rising number of military forces, and reflected in the cost of maintaining the army in Asia Minor.

The welfare functions of the government were very much influenced by war-created necessities. The attempt for redistribution of income through government activities had its cause in historical pressures. It was introduced in the belief that it would serve a double purpose: relief for the war period and cure for post-war unemployment. Hesitantly but steadily, forced by the imperative circumstances, the elements of the changing aim in fiscal policy were introduced. The most important public expenditures of the early part of this decade were operations on income account for the low income groups. They were mostly assistance payments to the families of fighting reserve volunteers

and expenditures for resettlement of refugees of Asia Minor.

The total expenditures on the first group amounted to $77,000,000 U.S. (gold)[58], whereas the refugee expenditures are aggregated as follows:

1917	1.7	million	dollars	(gold)	1922-3	5.4
1918	7.3	"	"	"	1923-4	7.5
1919	16.4	"	"	"	1924-5	9.5
1920-1	10.3	"	"	"	1925-6	7.2
1921-2	4.7	"	"	"	1926-7	4.0

$74.0 million U.S.[59]

The movement of 1,526,000 refugees from Asia Minor, Thrace and Russia[60] was a problem that required immediate solution. A scheme of agricultural settlement financed partly by the government and partly by the 10 million £ Sterling loan,[61] granted under the supervision of League of Nations, changed the structure of land distribution.

58 - 6,059.7 million drachmas.

59 - The report of Charles P. Houland, President of the Refugee Settlement Commission (Geneva 1926), published by the League of Nations, gives the following analysis of effected and anticipated expenditures (in Eng.£)
a) direct state expenditures (budgetary)1922-27: 5.918.500
b) expenditures of Refugee Settlement Commission until 30 June, 1926, for the agricultural settlement schemes: 7.807.038
c) expropriated civil estates: 1.500.000
Total: 15.222.538

60 - Official statistics of the representatives of the League of Nations in Greece.

61 - Actual amount spent by the Refugee Settlement Commission until December 31, 1929, was: £ 10.242.600 or U.S. $49,164,480.

Approximately 37 million U.S.$ (gold) were spent on the agricultural settlement scheme mentioned in Part I, Section D, and by 1928 the agricultural class formed 61.11% of the nation's population.[62]

The agricultural reform necessitated the expropriation or requisition of roughly 1,600,000 acres of land and redistribution to 1679 cooperatives, owning mechanic implements, with 125,000 members.[63]

The economic status of the peasantry and of agriculture generally was very unsatisfactory. The chief cause, it appears, was and still is the fact that the land available to individual enterprises is extremely limited: 35% of agricultural enterprises dispose of a land surface of 2.5 acres or less. 23% from 2.6 to 5 and only 10% more than 12 acres.[64] The income of the agricultural family in 1937 was computed as approximately 74 U.S.$ per annum.[65]

The consequences of this extremely small scale land proprietorship resulted in uneconomic employment of labour. Nearly 57% of available man-hours of agricultural labour were wasted.

62 - The situation actually has not changed. In 1940 the census revealed that 63.2% or 4.656.623 persons were directly (1.563.723) or indirectly occupied with agricultural production (90% agriculture, 9% cattle raising, 1% fishing).

63 - Official Computation by the Annuaire Statistique de la Grece (1930), p. 104.

64 - Annuaire Statistique, 1934, Op.Cit., p.121. Figures here are converted into acres.

65 - Agalopoulos, Ch.N., The Problem of the Greek Social Insurance (in Greek) Athens 1949. No source or method of computation is given.

The expenditures on pensions naturally grew with the effects of war. The number of pensioners of the War Ministries were nearly doubled and the numbers of civil pensioners increased by 25%.[66]

However, war and agricultural reform with its inevitable waste of labour employment and the state incapable of absorbing the excess labour available through the lack of a well-organized fiscal scheme brought very important psychological trends that appear throughout the coming decades: an increased propensity of dependability on the state.[67] A rise in the number of civil servants, nepotism, political favouritism, etc., under the pressure of this propensity was the unfortunate endowment of the post-World War I era.

66 - The picture, nevertheless, is not as clear as it appears. The creation of "Special Treasury Funds" decentralized the income operations of the state. The complicated phenomenon of a group of funds with special tax levying privileges thus inconsistent with sound economic principles was very recently criticized by the International Labour Office in its Report on Greek Trade Unions, 1948. But the existence of these treasuries must be attributed to historical evolution rather than to real exigencies. The representatives of the International Labour Office found the mean pension (1948) in Greece corresponded to 156% of the per capita national income of 1938, whereas in the U.S. this percentage was 59%; and in Great Britain 69%. Even if the co-efficients of monetary devaluation are corrected the figure that results (75.8%) is still very high.

67 - The growth of the numbers of State servants is characteristic: (Cont. on p.76)

Naturally the ordinary operative functions of government increased. The expenditures of this group must include also the servicing of the national debt. Because of the constant decrease of real money value, the market price of foreign exchange climbed to heights that absorbed much of the national product in order to pay interest and amortization obligations.

In 1918-19 the contracted engagements of the Ministry of Finance (National Debt service payments) formed the 15.45% of the aggregate expenditures of the budget for that period. In 1920-1, 17.42%, in 1926-7, 42.95%, in 1927-28, 43.95%, in 1928-29, 50.19% and in 1929-30, 63.83%, whereas the relative percentages of the Ministry of War were the following:

1918-19	54.96%	1927-28	18.28%
1920-21	47.86%	1928-29	12.75%
1926-27	24.91%	1929-30	8.64%

To give a complete overall picture of the contracted obligations, a table showing the percentage distribution of the relative expenditures follows:

67 - (Cont. from p. 75)

	1915	1923-24
a) Civil servants	21.979	46.460
b) Public security	14.428	25.954
c) Civil servants of War Ministries	453	-
d) Civil servants of the Navy	800	196
Total:	37.660	72.610

(Andreadis: Op.cit. p.630)

Percentage Distribution

Ministry	1918-19	1920-21	1926-27	1927-28	1928-29	1929-30
Finance (N.Debt)	15.45	17.42	42.95	43.47	50.19	66.83
For.Affairs	1.43	1.79	1.67	2.62	2.40	0.84
Justice	1.04	1.28	1.69	1.97	1.85	1.28
Internal Affairs	4.76	5.80	6.31	6.13	5.25	3.08
Transport.	3.33	7.13	6.30	6.53	6.69	4.36
Creeds & Education	1.56	3.45	5.04	5.69	5.79	4.50
Nat.Economy	0.28	0.68	-	1.13	0.98	1.00
Agriculture	1.63	2.65	3.04	2.67	2.29	1.89
Publ.Health	-	-	2.85	6.02	5.93	0.90
Publ.Assist.	11.70	7.91	-	-	-	3.52
Supply	0.36	0.25	-	-	-	-
War	54.96	47.86	24.91	18.28	12.75	8.64
Navy	3.50	3.77	5.19	5.51	5.47	2.93
Leg. Corps	-	-	-	-	0.31	0.23
	100.00	100.00	100.00	100.00	100.00	100.00

We feel that our brief analysis of expenditures in this chapter would be incomplete without a more careful reconsideration of the government payments for the servicing of national debt. However, at this stage of the work the magnitude and impact of the national debt cannot be comprehensively weighted

without a previous discussion of the policy that was attempted in order to balance the expenditures. The cause is quite simple: Revenue limitations forced an increase in this public debt.

CHAPTER 5

FINANCING THE OBJECTIVES

A. SOURCES OF REVENUES

The influence which fiscal activities may exert within the monetary framework on aggregate money expenditures depends upon the amounts of money collected and spent and the way in which they are collected and spent. This can be shown by the following model.

If the supply of money is fixed and government expenditures over a period are larger than its receipts, then the private sector will have taken in more than it has paid out. The accumulated fund will be exactly equal to the excess of the public sector payments over government receipts. Because Y, in this case, must always equal C + I.[68]

68 - If Yp = Income of private sector
Yg = Income of public sector
E = Expenditures of private sector on consumption and investment.
G = Expenditures of public sector on goods and services
then:
$Yp + Yg = E + G$ (1)
If
$G = Yg + a$ (Government expends amount a over its income)
In order for equation (1) to remain valid the income of the private sector must be
(2) $Yp - a = E$ (private sector spends less than its original income).
The amount a expended in excess of Yg is offset by the same amount a accumulated by private sector because equation (2) may be written $Yp = E + a$.

In order to carry out its policies and perform administrative functions, the government has two sources of funds at its disposal: 1) funds available in the national treasury (accumulated or made available through creation), 2) funds held by the private sector or foreign capital owners.

That which influences the national economy as a whole is the way in which the funds are expended as well as the secondary effects on consumption and capital goods investment. We have seen that, at that time, these effects on the aggregates of the economy were unknown. Therefore the main emphasis was on the availability of funds.

The first source - accumulated surpluses or created money - is made available to the state without the necessity of any legal obligations or contractual transactions.

The second source of funds is through taxation and borrowing. It breeds transactory or legal compulsion. But, whereas taxation affects both cash balance and also the net worth of the tax payer, borrowing affects only cash balances. Taxation is normally an operation on the income account of private units; borrowing is a transaction

on capital account. What interests the economy as a whole in this connection is not only how the funds thus secured are expended, but also how they are collected. This was also neglected.

Besides the foregoing sources of funds, Greece also had at her disposal the financial assistance of powerful allies. The south-eastern army that broke through the Austrian-Bulgarian front in September, 1918, was composed by Greeks to a large extent (44%). Naturally, the efficiency of both the Greek armed forces and the Hellenic economy was of paramount political and strategic importance to the Entente. Germany on the one side, and Britain, the United States, and France on the other, made substantial advance payments to south-eastern European countries,[69] for the purpose of maintaining their war efficiency.

69 - Moody, Analysis of Investments, 1925, pp.494,564, computes as follows the advances made to the different countries by the Allies:

Yugoslavia: 998,195,466 gold francs (total)
Rumania: 1,106,000 francs from France
23,000,000 Pounds Stlg. from Great Britain
38,000,000 U.S. Dollars from the U.S.
156,000,000 Lire from Italy
24,000,000 Francs from Belgium

Germany advanced:	in bonds	in war material	in cash
to Turkey	2,741	718	915 mill.RM.
Bulgaria	134	862	820 " "
Austria/Hung.	3,660	-	233 " "

A. Andreadis, Op.Cit., p.607.

But this third source of funds, in the case of Greece, proved to be of negative value. Greece gave more than she received. During the war the government of Greece advanced to France and Great Britain the equivalent of $75,000,000 U.S. (gold) for the expenditures of the Macedonian Army.[70]

Eighteen months before the official declaration of war, Greek soil, navy, commercial fleet, railroads, etc. were already being used by the Allies without compensation. Foreign armies, showing a very loose acceptance of the principles of neutrality turned the northern frontiers of the country into a battlefront. The naval and military supplies of the Greek army were requisitioned. Nothing was paid by the Allies for the use of the leased items nor for private or public damages to the material requisitioned.

After the war, Greece received $48,000,000 U.S. in the form of advances in foreign currency. These funds left Greece short by nearly $3 million. This difference is equal to the $51 million advanced to France and never recovered minus the above mentioned sum of $48 million. It is clear that the nation was abandoned alone to struggle

70 - France: 256,965,965 gold dr.
Great Br.: 116,946,333 " "
373,912,298 " " or $75,000,000 U.S. (gold)
The British government, immediately after the war, paid the $24 million advanced to the English forces. France refused to pay her relative advances ($51 million).

for its welfare.[71]

Under this historical reality the public sector had to content itself with the originally mentioned sources of funds: a) those available already in the National Treasury, or created, and b) those held by domestic or foreign private sectors. Because the first source of funds (creation of money) - in the absence of accumulated surpluses - is directly related with domestic attempts to close the fiscal gap through borrowing, we thought advisable to postpone its discussion until the last section of this chapter.

B. THE LEGAL STRUCTURE OF TAXATION

Funds made available in the private sector are secured through taxation. The discussion of the legal

71 - The agreement of 10th Feb. 1918 gave great advantages to the two Western powers. They credited the account of the National Bank of Greece, while the actual payment of this credit was contracted to take place after the war. Thus the Western Powers avoided fluctuations in the exchange price of their currencies and the payment of carrying charges and interest. The disadvantages of this arrangement for Greece are equally paramount: besides the possibility of defeat of the Allies, in which case nothing could ever be recovered, the Greek currency was placed in a very precarious position. Against the expectations of these payments the National Bank of Greece issued money to cover expenditures with the approval of the International Finance Control. The inflation threat was serious. Greece, by signing this agreement, deliberately, placed herself at the unconditional disposal of the Allied cause.

framework of the tax legislation follows immediately. The extensive taxation effort of the decade started in 1918, and was directed towards an increase of indirect and direct tax yields.[72]

Inheritance, Gift, Dowry, Bequest Taxation.

Act 1641/1919 "Codification of Inheritance, Bequest, Gift, Dowry, and Lottery Profit Taxation" was introduced on June 1st, 1919, by Royal Decree 10/13 May, 1919, and constitutes now, with its 65 amendments, the existing Inheritance Act of Greece.

The legislation existing prior to 1919 was repealed and the principal laws affected were:

a) Law T-A (3391), 24 October, 1909 (Inheritance, Bequests causa mortis, Gift Taxation)

b) Article 2, Law 3633, 16 October, Law 475, 10 December, 1914, concerning amendments to Law 3391.

c) Article 10, Law 845, 2 Sept., 1917, Article 11, Law 934, October, 1917, concerning administrative arrangements for tax collection.

The Act 1641/1919 comprises ten titles and 72 articles. Title 1 deals with administrative and legal

72 - The purpose of this brief outline is comparative. The brief exposition of the legal tax framework serves as an introduction to the general theme and is far from complete. The use of up-to-date tax coefficients was preferred for the above mentioned comparative purpose. As far as we know, it is the first systematic, though brief, presentation of the legal tax structure of Greece ever attempted in English.

procedure of assessment and collection of inheritance taxes. Title 2 deals with the legal implications and administrative procedure of assessment and collection of gift, dowry, and lottery profit taxes. The Article 42 gives the dowry tax rates and by Article 43 a 20% tax is imposed on lottery or lottery bond profits.

The general rule of allowing no deductions from tax assessments nor a return of tax collections has the following exceptions: offsetting decisions of fiscal Final Courts of Appeal or taxes paid in foreign currencies on the same income, (Titles 3 and 4). The legal provisions for bequests received by municipal or corporate institutions as well as provisions concerning the additional fines payable for overdue tax declarations are described in Titles 5 and 6. The closing titles (7, 8, 9, 10) deal with prescription, penal provisions, transitory provisions and special cases in each of which different tax rates should be applied.

The following table gives the tax percentages according to the different increments (in dollars).

Inheritance, Bequest and Gift Increments and Tax Percentages.[73]

Increments	Amounts of Total Inheritance, Bequest or Gift	Tax % Rates for First Degree Descendants	Tax % Rates for Second Degree Descendants or Ascendants in General
U.S. Dollars	U.S. Dollars	%	%
1st 400.00	400.00	-	-
next 266.66	666.66	4	6
" 666.66	1,333.32	5	7.5
" 1,333.32	2,665.64	6	9
" 1,333.32	3,998.96	7	10.5
" 1,333.32	5,332.28	8	12
" 1,333.32	6,665.60	9	13.5
" 2,665.64	9,331.24	10	15
" 2,665.54	11,996.88	11	16.5
" 2,665.54	14,662.52	12	18
" 2,665.54	17,328.16	13	19.5
" 2,665.54	19,993.80	14	21
" 3,998.96	23,992.76	15	22.5
" 3,998.96	27,991.72	16	24
" 3,998.96	31,990.68	17	25.5
" 3,998.96	35,989.64	18	27
" 3,998.96	39,988.60	19	28
over 3,998.96	39,988.60 & up	25	35

Source: The figures on this table are taken from Article 3, Legislative Decree of 7/9 - 12-1947, ratified, amended and supplemented by Decree 656/948, that repealed the relevant article in the 1641/1919 Act. The actual existing rates were preferred for purposes of comparison with modern Canadian or U.S. Federal Legislation. The basic rates and increments are given in drachmas. The conversion and arrangement is original.

73 - Computations in conformity with the new official price of U.S. Dollar after the recent devaluation (1949). Ratio: 15,000 drachmas per dollar.

Taxation of Net Income.

The next important step in the development of direct taxation was the repeal of all existing sporadic enactments and the formulation of an Income Tax Act on a progressive basis.

Income Taxation was introduced by Act 1640 of January 3, 1919. Due to consecutive amendments, the administration was obliged to issue three administrative codifications in six years, and an additional in 1939. The official codification was issued on September 6, 1929.[74] Administrative codifications were issued for the benefit of the different judicial levels by the following circulars:

a) 271 of 20 Dec., 1919
b) 179, 15 May, 1923
c) 143, 10 June, 1925
d) 114, 14 March, 1939

Act 1640, "Taxation of Net Revenues" as it now stands, is divided into 13 chapters,[75] and distinguishes two different groups of taxable income levels:[76]

a) Analytical tax on all net revenues earned in Greece from all income-earning categories, according to a special per category rate.

74 - The report of the Commission that framed the amendments into the official code of 1929 states that the number of these amendments and supplements was as high as 80.
75 - See also Th. Golias - A. Kyrkos: Code of Taxation of Net Revenues (in Greek), Second Edition, Athens, 1949.
76 - Chapter I, Articles 1-8, Act cit.

b) "Synthetic" (surtax) additional impost on the total net revenue - in this connection revenue after deduction of the Analytical tax amount - earned during the immediately preceding fiscal period and computed as described in Chapter VII of the Act.

1. Analytical Tax

Article 5 of the Income Tax Act gives the following categories of revenues liable to analytical taxation:

A. Revenues from "built" property.[77]

B. Land revenues.

C. Revenues from "mobile capital income".[78]

D. Profits of commercial and industrial enterprises.

E. Agricultural entrepreneurial profits.

F. Remuneration of services.

G. Compensation for professional services.

A. Chapter II of the said Act is devoted to the legal tax implications of income-earning built property. The tax rate is proportional. The same rate of taxation is applied to all property classes. The actual rate is 30%

77 - The Greek word "ikodomi" is equivalent to the British "building" or the French "batiment". But the legislator very widely interpreting the meaning of the word included under this category (Art. 9, Sec.2, Ch.2) all income-earning plots (parking spaces, open air theatres, warehouses, etc.)

78 - i.e. comprising dividends or interest earned through the ownership of corporation stocks or public and private bonds.

of the net income.[79]

The following deductions are allowed to be made from the total taxable income:

a) 25% of the gross income for covering depreciation,[80] insurance, state and local taxes and maintenance costs.

b) the income of the land, if the building is erected on leased land.

c) interest on mortgages payable on the building.

d) rent paid by the sub-lessee to the lessee.

B. Chapter III concerns the revenues of land. The object of the tax is agricultural or forest land income. The tax coefficient is 30% proportionally on all net income - gross income less the following income deductions:

a) State and local direct taxes

b) 5% of gross income for depreciation and maintenance costs

c) Expenditures on marsh-draining schemes

d) Mortgage interest

e) Sub-rent if the land is sublet

C. Revenues earned through the ownership of mobile capital are discussed in Chapter IV of the Act. The Greek Legislature classifies mobile value incomes into three classes liable to the same proportional rate of taxation.

Class a): Income earned in the form of net dividends and

79 - Law 942/949, Art. 1, Sec.1.
80 - 324-1945, 1014-1946, Art.2, para.4.

interest payments, on the founder stocks or capital stocks of domestic corporations. Bonds of the government domestic corporations are also included. Compensation, bonuses, honorary fees of directors and every remuneration except administrative salaries of the officers of the company are included in this class.

Class b): The same impost is levied on all the above objects when the subject of taxation is a foreign company.

Class c): On all interest earned from cash deposits or mortgages and not included in the classes above.

The proportional rate of tax is 30% on all classes. Legal exemptions are the following:

a) Interest on all deposits with foreign or domestic banks

b) Interest on all bills of exchange and promissory notes arising from commercial transactions

c) Interest on deposits with national or private saving institutions.

D. Chapter V levies an impost on the net profits of all commercial or industrial enterprises. The computation is based on the profits realized in the immediately preceding fiscal period. Corporation income is also included in this category. The following table gives

the existing tax rates per annum in U.S. Dollars:[81]

Profit Increments		Total Profits	Tax Rate	Tax Increment	Total Tax Payable
1st	$4,000.00	4,000.00	12%	480	480
2nd	4,000.00	8,000.00	16%	640	1120
3rd	4,000.00	12,000.00	20%	800	1920
next	4,000.00	16,000.00	25%	1000	2920
Over			30%		

Source: Original computations from given tax rates and profit increments.

E. The profits of agricultural entrepreneurs - were originally provided for in Chapter VI, but these provisions have since been repealed.

The original impost on cultivated agricultural lands was postoponed, and consecutive attempts were made to restore these taxes. However, these attempts were made futile through the political influence and the low agricultural

81 - Ratio 15,000 drachmas: 1 U.S. Dollar.
82 - This tax was introduced by the Law of 18/9/26 and ratified by Law 13/11/27. This last enactments postponed the enforcement of Law 18/9/26 until a regulatory Royal Decree was issued. In the meantime a new law (3408) was enforced, as a temporary measure, to deal with agricultural entrepreneurial profits. But the enforcement of this law was postponed from 1930/31 to 1939/40 and finally repealed by Act 2287/1940. Recently (1945) an attempt was made to introduce a similar law to that of 18/9/26, but it was repealed by a special provision of Act 323/1947.

income of the agricultural class.

F. Taxation on wages, pensions and salaries is imposed according to the following table[83] (in U.S. Dollars):[84]

Increments of Quarterly Remuneration		Total Quarterly Remuneration	Tax % Rates	% Tax	Total Quarterly % Tax
1st	100	100	-	-	-
next	100	200	1	1	1
"	100	300	4	4	5
"	100	400	7	7	12
"	100	500	9	9	21
"	100	600	11	11	32
"	100	700	13	13	45
"	100	800	15	15	60
"	100	900	17	17	77
"	100	1000	19	19	96
from	1000-2000		16		
"	2000-3000		20		
"	3000-4000		25		
"	4000 & up		30		

Source: Original computation in Dollars from given tax rates and increments in drachmas.

G. The tax rate for annual income earned on professional services is computed according to the following table:[85]

83 - Act 942/1949 Art. 11, Sec. 1.

84 - If the tax is paid by the Company and not deducted from the quarterly remuneration of the employee, then the equivalent tax coefficient could be computed as follows:

if: l = legal tax coefficient (known)
x = unknown equivalent coefficient

then: $L = x - \frac{lx}{100}$ or $x = \frac{100\ l}{100-l}$

85 - As contrasted to contracted services where the salary involved is automatically taxed according to Chapt. VII. (Tax on wages, pensions, etc., see Section F).

Annual Income Increments		Total Income	Rate	Incremental Tax	Total Tax
1st	4,000.00	4,000.00	12%	480	480
next	4,000.00	8,000.00	16	640	1120
"	4,000.00	12,000.00	20	800	1920
"	4,000.00	16,000.00	25	1000	2920
"	over		30		

Source: Original computations in U.S. Dollars from given income increments and tax rates in drachmas.

2. "Synthetic" (-Additional) Income Tax (Surtax)

For the purpose of this surtax, the net income earned by the taxpayer from each source is added. The sources of income are determined according to the classification provided for in the analytical taxation system given here in page 88. From the resulting total, the following deductions are allowed:-

a) Taxes paid or payable as provided for by the analytical classification.

b) The net losses realized according to category of income source.

c) Life Insurance premiums of the tax payer.

d) Interests on personal loans of the tax payer.

e) Capital damages or losses, as contrasted with capital gains.

The total additional tax is then computed according to the following scale of net "analytically"

disposable income multiplied by the relative rate as follows:-[86]

Income Increments		Total Income	Tax % Rate	Tax Increment	Total Tax
1st	4,000.00	4,000.00	-	-	-
next	1,000.00	5,000.00	26	260.00	260.00
"	1,666.66	6,666.00	28	466.00	726.00
"	1,666.66	8,334.00	30	500.00	1,226.00
"	1,666.66	10,000.00	32	533.00	1,760.00
"	3,333.33	13,333.00	35	1,166.00	2,926.60
"	3,333.33	16,666.40	40	1,333.40	4,260.00
"	3,333.33	20,000.00	45	1,500.00	5,760.00
"	6,666.64	26,666.40	50	3,333.30	9,093.32
"	6,666.64	33,333.00	55	3,666.66	12,760.00
"	6,666.64	40,000.00	60	4,000.00	16,760.00
"	13,333.33	53,333.33	65	8,666.66	25,426.66
"	13,333.33 over	66,666.66	70	9,333.33	34,760.00

Source: Original computation in U.S. Dollars from given tax income increments in drachmas and rates.

86 - Conversion coefficient 15,000 drachmas: $1.00 U.S. A comparison with Canadian Income Tax rates is interesting. For taxable income of $10,000 (1950):

In Canada: .....Tax Payable.....$2,260.00
Average rate: 22.60%

In Greece:
Tax payable is computed as follows:
(A) Analytical Tax on $10,000 (30%).....$3,000.00
(B) Synthetic Tax on $10,000 - $3000 = $7000.
(Net income after deducting the "analytically" payable tax) -
As per table above: On $6,666..$726.00
" " " " " $ 334..100.20 826.20
$7,000. $3,826.00
Average rate in Greece: 38.26%

At this point an interesting innovation is introduced. The legislator does not satisfy himself with the above basis of income computation. Anticipating "cheating", he surmises that a higher total income was earned than that declared by the tax payer;[87] and he uses the following bases for computation:- a) Status of residence: the annual rent of the tax payer's residence is multiplied by arbitrary coefficients and the total suspected income is computed. b) Ownership of automobile: In the event the tax payer owns a car or yacht,[88] the computed total annual taxable income is raised by 666-1333 U.S. Dollars, depending on the value of the car which is considered, for this purpose, always new (no depreciation allowance), or the horsepower of the engine of the yacht owned.

If the suspected total income is bigger than the total income computed by the addition of analytical incomes (as per page 88), the former income is considered as the real net income of the tax payer.

Article 36, Sec. 16, per se, constitutes a supplementary basis of surmise - income computation. The exogenous appearance of wealth as an income criterion is further elaborated.

The total net revenue may be determined, accord-

87 - Art. 31, Sec. 4 - 15.
88 - Over 20 H.P.

ing to this above mentioned article, at a further higher level than that derived by the two methods of computation - a) sum-total of analytical revenues, and b) surmise-income based on the criteria of residence and car ownership - already considered. The income tax collector may assess a higher income than that declared, according to whether or not the following criteria of wealthy living are apparent:[89]

a) Rent of residence with emphasis on whether or not the occupied house space is out of line with the personal or family requirements of the tax payer.

b) Lavish furniture and funds invested in art collections or in other articles not taxable by existing legislation.

c) The number of male or female servants or tutors.

d) The cars, yachts, riding horses owned.

e) The cars, yachts, horses used by the tax payer and his family.

f) The tax payer's trips abroad.

g) The general social activity of the tax payer, his expenses on entertainment and, generally, any expenditure related to his social appearance.

h) Any information or evidence in respect to his wealth or income.

89 - Article 31, Sec.16, lists the above surmises as indicative. The wealthy-appearance concept is left on the subjective valuation of the investigating income-tax commission. These subjective criteria produce a rising tendency towards tax evasion and the relations of tax payers and tax inspectors are not to be considered by any means harmonious.

The President of the investigating income tax Commission is appointed by Royal Decree.

The closing chapters of the Income Tax Act (10, 11, 12, 13) deal with the technical and legal procedure of assessment of the income tax, with the penal and transitory provisions and with the fees to be paid.

C. SIZE OF TAX REVENUES

1. The changing pattern of government expenditures, in both character and magnitude, had a direct impact on the size and character of revenues.

In Chapter 4, Section A, we proved by simple comparison that the growth of money outlays of the government during this decade must be attributed entirely to the reduction of money value. The same observation applies to the change in magnitude of revenues.

As for the change in character, it was effected by shifting taxation from the indirect and proportional to the direct and progressive basis. The revenue figures corresponding to the expenditure figures of page 68 are given below.

1914	559.4	million	gold	drachmas
1918-1919	1.250.5	"	"	"
1919-1920	1.128.7	"	"	"
1920-1921	1.653.6	"	"	"
1921-1922	1.622.5	"	"	"
1922-1923	5.158.3	"	"	"

Source: Annuaire Statistique, op.cit., p. 372.

The cost of living index and rates of exchange are given on page 68.[90]

2. The magnitude of the fiscal effort can be clearly seen by contrasting the figures of the "ordinary" revenues. This class, as we know already, is chiefly composed of revenues acquired through indirect or direct taxation.

	1914	1925
Ordinary Revenues[91]	221 million	6045[92]

In order to maximize revenues, commensurate with the fiscal objective, the following imposts were introduced along with the already mentioned inheritance and income taxes.

90 - In fact, revenues were diminishing. The chief cause: the rich province of Thrace was returned to Turkey.
91 - Andreadis, Op.Cit., p.631.
92 - Population respectively (in round figures) 4,900,000 and 6,300,000.

a) Excess profits taxes based on the average profits for a specified period of time. [93]

b) Increase of tobacco tax.

c) Introduction of a liquor tax.

d) Increase in fiscal stamp fees.

e) Doubling of tariffs and custom duties.

f) Increase of the price of fiscal monopoly commodities.

In 1922, due to the increasing use of funds by the state created by direct printing, the administrators[94] "invented" a unique "compulsory loan",[95] and the tax rates on all income were increased for the servicing of this loan.

Almost simultaneously a capital tax was put into effect, collectable in five years, for covering further money issues (750 million drachmas in March, 1923). The overall result is that the per capita tax in 1914 was 43 gold drachmas, whereas in 1925 it increased to 927 gold drachmas.[96] These figures, corrected by the devaluation of money coefficient and translated into U.S. Dollars are as follows:

1914: $7.15 1925: $12.00 approximately.

93 - This tax was used in the U.S. as a wartime measure during World Wars I and II. It was also used as an emergency fund-raising device in the Revenue Act of 1935. See Excess Profit Taxation by Kenneth G. Curran, 1943.
94 - Minister of Finance G. Protopapadakis.
95 - It is discussed in the last section of this chapter.
96 - See footnote 92.

They comprise the total amount from direct and indirect taxation, introduced or existing already in 1919 - 1927.

A complete picture of the sources and relative magnitudes of the revenues may be derived from the following percentage-distribution table:

COMPARATIVE ANALYTICAL TABLE OF ASSESSED REVENUES

Category of Revenue	1920-21 %	1927-28 %
I. Real Revenues (Ordinary & Extraordinary)	48.26	99.34
1. Direct Taxes	7.58	17.63
2. Indirect Taxes	13.40	42.99
3. Monopolies	3.36	3.46
4. Stamp Revenues	3.01	5.66
5. Other Fiscal Revenues	1.22	2.52
6. Governmental Services	1.76	2.98
7. Income from State Property	1.33	1.12
8. Surtaxes	-	16.28
9. Ordinary revenue balance	5.24	1.83
10. Extraordinary revenues	11.36	4.87
11. Extraordinary taxes	0.72	1.08
12. Remaining extraordinary revenues	10.64	3.79
II. Capital Movements	51.74	0.66
1. Sales of State Property	0.07	0.01
2. Loans	51.67	0.62
3. Balance	-	0.03
	100.00	100.00

Source: Basic data from Annuaire Statistique, op.cit., Chapter on "Public Finance".

Total U.S. Dollar value of the 1920-21 revenues = $254,000,000.

Total U.S. Dollar value of the 1927-28 revenues = $130,000,000.

D. PUBLIC BORROWING AND MONEY CREATION

In Section A of this Chapter we mentioned that two sources of funds are available for the satisfaction of policy objectives and the management of expenditures:

a) accumulated surpluses or money made available through monetary creation,

b) funds held by the private sector of the economy or by foreign capital owners.

In Sections B and C we discussed the availability for taxation purposes of the funds held in the private sector as well as the general taxation framework.

Accumulated surpluses were unobtainable so that the only alternative for the administration was to create money so long as there was no foreign or domestic capital available. It is for this reason that we postponed the discussion of monetary creation and public borrowing until now. Moreover, our above classification is based purely on legal considerations, whereas the functional relationship of monetary creation and borrowing requires unified discussion.

Limited revenues forced an increase in the public debt. Simultaneously, however, this forced an increase in the cost of the debt and made the raising of additional funds necessary. Since the capital markets were unfavour-

able, the direct creation of money was thought the only alternative. Indeed, little satisfaction could be found in the capital markets because of the previous unfavourable borrowing history of Greece. Savings were small as one could suspect from a capital scarce country and, furthermore, this poor devastated country was left to bear much of the economic burden of World War I. Not only was this burden entirely borne but, through ridiculous exploitation, the country was forced to give financial aid to Britain and France.

The structure of the Hellenic National Debt in 1915 is given in the following table:

	Nominal Capital	Interest	Yearly Amortization Payments
A. Foreign-held loans			
1. Loan of 1833	52,146,011		900,000
2. Loan of 1879-93	480,094,500	11,960,896	3,952,860
3. Loans posterior tothe settlement of 1897	565,748,500	24,164,080	4,668,315
4. Temporary loans in gold	115,000,000	4,950,000	
Sub-Total:	1,212,989,011	41,074,976	9,521,175
B. Domestic Debts	165,360,702	4,662,227	2,467,387
C. Floating Debts	23,200,000	3,768,000	
Total:	1,401,549,713	49,515,203	11,988,562[96]
Or U.S.$gold	280,000,000	9,900,000	2,397,200

Source: A.M. Andreadis, op.cit., p.635.

96 - Andreadis, op.cit., p.635. Gold dollar calculations by the author.

During the period 1917-1920 the following borrowing operations took place:

a) A loan of 100 million drachmas (1917)[97]

b) A domestic loan of 75 million drachmas (1918)

c) A domestic loan of 300 million drachmas, the greatest domestic loan ever raised in Greece up to that date. Its success was due to the temporary influence of the International Finance Commission exerted on the economy as a whole.[98]

Besides these direct long-term borrowing transactions, the government in 1918 undertook the issue of special war promissory notes to the total of 200 million drachmas. This issue limit was increased to 300 million in 1921 and 500 in 1922. The value of war promissory notes in circulation at the beginning of 1923 amounted to 433 million drachmas. This figure approached the 611 million mark during September, 1923, while in December, 1923, it was increased to 978 millions; in March, 1924, to 1,225; in December, 1924, to 1,600 million drachmas.

In order to keep pace with the servicing of these short-term debts, the government was obliged to increase taxation (1925), while in January, 1926, a partial conversion of this debt was effected.

It was agreed that monetary issues in Greece during the war period would be covered by Allied credits. These

97 - Used to pay military provisions of previous fiscal periods.
98 - See Chapter 3, Section B.

were fiduciary issues that satisfied the increasing pressure of war emergencies. But in 1920 the situation looked more complicated: The Allies asked Greece to relieve them from the serious military situation in which they were involved in Constantinople; and the Hellenic armies undertook the Asia Minor Campaign. The Allied credits available were either exhausted by the devaluation of foreign currencies,[99] or were credits of a "hard" form which the Greek government did not wish to spend.

The decision was taken, consequently, to increase the supply of money. The International Finance Commission that was supervising government finances did not interfere, in spite of the contracted obligations of Greece concerning her monetary policy.[100] The expenditures that were to be effected served the cause of the Entente.

Currency creation started vigorously. Approximately 2,530 million drachmas were issued from 1917 to February, 1922. This printing of money without any gold or foreign exchange reserve is equivalent to a forced loan, the lender of which is the total population. Therefore, the occurrences of March, 1922, when the "heroic effort" - as it has been described in the literature of

99 - French credits.
100 - See also Chapter 3, Section B.

that time - of checking monetary circulation took place, must be considered with reference to the nature of this currency expansion.

In March, 1922,[101] the Greek government passed a law ordering the bisection of the circulating paper money. One section was left in circulation, while the other was withdrawn and exchanged for domestic loan bonds. These bonds were redeemable in 20 years. As a parallel measure, the National Bank of Greece credited the state with an amount equal to one-half of the total authorized circulation.[102] The possibility of issuing further money to cover the authorized circulation was legally permissible.

Theoretically, this "compulsory loan", as it was defined by the Greek Act, was not exactly an extra loan burden at the time it was effected. It did not increase the total amount of the public debt since this included non-covered currency issues. What happened, in fact, was the conversion of the short-term, non-covered monetary issues, into a long-term contracted obligation.[103] This permitted the state to create money supplies beyond that allowed by law, thus not causing legally an inflation.

101 - Evlambios, The National Bank of Greece, (in Greek), p.152-4, Athens, also Andreadis, op.cit., p.618-622. Tsouderos, E., Revue d'Economie Politique, 1922.

102 - Amounting to 3,100,000,000 drachmas at the time of this operation. Therefore the credit amount had to equal 550 million drachmas.

103 - Contrast Andreadis, A., op.cit., p.619.

Naturally, the total figure of public debt increased as soon as the National Bank of Greece started to create money in order to reach gradually the authorized circulation figure.

This unique and original[104] manipulation, motivated by the urgent requirements for the maintenance of the army fighting in Asia Minor, checked only momentarily the flow of the required money supply. The historical circumstances nullified, more or less, this "heroic effort" and the circulation curve followed its fatal upward trend.

Mean annual circulation.

1917	670.0 million drachmas		1923	4,152.8 million drachmas	
1918	1,084.1 "	"	1924	4,646.6 "	"
1919	1,333.2 "	"	1925	5,266.0 "	"
1920	1,425.3 "	"	1926	4,519.0 "	"
1921	1,832.1 "	"	1927	4,952.8 "	"
1922	2,094.3 "	"	1928	4,863.3 "	"

Source: Annuaire Statistique, op.cit., p.268.

The above fiscal operations of 1917-1925 naturally increased the funds capitalized through borrowing from the private sector. A new picture of magnitude is now offered for the Greek public debt. In 1926 the situa-

104 - It was often characterized in the foreign literature as similar to the measures taken in Czechoslovakia and Hungary after World War I, in order to reduce by 50% the respective circulation. But the Hellenic Act should be considered as an indirect revenue-yielding measure.

tion was as follows:

In Foreign Currencies

A.	Fixed loans in £:	£ 51,590,640
B.	Fixed loans in $:	£ 5,559,480
C.	Fixed loans in French Fr.:	£ 1,126,593
	Total in	£ 58,276,713
	Other contracted short-term engagements: (absolute figure)	£ 1,123,287
		£ 59,400,000 [105]

In Drachmas

D.	Fixed loans in drachmas	4,500 million
E.	Floating debt	3,300 "
		7,800 million [106]

Converting the above totals into U.S.$ (gold) we have:

Obligations in foreign currencies:	$ 291,000,000
Obligations in drachmas:	$ 101,300,000
Total:	$ 392,300,000 [107]

In 1928, the total nominal value of the public debt was approaching the 470 million dollar mark, with the major changes effected through the increase of obligations payable in drachmas.

Comparing the above figure with those given in the respective chapters on revenues and expenditures

105 - Ratio 1 £ = 4.85 $ and 77 drachmas = 1 $
106 - Andreadis, op.cit., p.646.
107 - Ratio 1 £ = 4.85 $ and 77 drachmas = 1 $

for the same period, we note the ratio of the amount required for the servicing of the public debt to the total of revenues and expenditures to be the following:

Ratio to Revenues:		Ratio to Expenditures:	
1912	29%	1912	25%
1914	25%	1914	12%
1926	25%	1926	30%

We must now consider the ratio of foreign capital borrowed for military purposes to the military expenditures for the period.

In the chapter on expenditures[108] we gave the total figures of military and welfare expenditures caused by the intensive war effort. The figures we arrived at for 1917-1926 are the following: (in million U.S. $ gold)

A. Military expenditures:	613.3	
B. Welfare functions:		
Transfer payments:	77.0	
Refugee expenditures:	74.0	
Expenditures for agricultural settlement:	28.0	
Total:	792.3	million dollars

On the other hand, foreign borrowed military aid during the decade amounted to $123,000,000. Therefore, the foreign borrowed contribution is approximately 15.30% of the direct and indirect military expenditures.

108 - See Chapter 4, Section B.

Conclusive remarks:

1. Our analysis makes it possible to answer now the most important question of this chapter. What needs were satisfied by the funds obtained from the state's borrowing activities? Was the public debt of Greece in the early twenties really a "dead-weight" debt?

An overall picture is presented in the following table. The answer is obvious. It was a "dead-weight" debt.

ALLOCATION OF BORROWED FUNDS

(Percentages)

	1898-1923		1923-1930[109]	
	Domestic	Foreign	Domestic	Foreign
BUDGET DEFICITS.....	0.84	6.50	-	17.45
Interest, Carrying Charges & Amortization.....	3.13	8.23	25.6	14.86
Military provisions & Refugee Costs.....	95.21	67.92	69.1	36.73
Public Investment.....	0.82	11.77	9.5	30.96
Consumption Expenditures..	-	5.58	0.8	-
	100.00%	100.00%	100.00%	100.00%

109 - Our calculations include:
a) purely domestic long-term loans.
b) short-term engagements (war, promissory notes, etc.)

2. The following relationships should be noted.

The per capita public debt increased from $74.5 (1920)[110] to about $95 in 1930. Thus the increase in National Debt was approximately 28% during 1917-1930.

Although the nominal value of the public debt increased, the real "burden" decreased. One quarter of the loans obtained during this period were used to amortize outstanding commitments.[111]

3. The mean average ratio of the amount required for the servicing of the public debt to the total of the government revenues was 28.2% for 1917 - 1925. This percentage shot up to 34.44% in 1925 - 1930.

4. The terms attached to borrowing in the foreign capital markets were extremely heavy:

a) Most of the foreign loans were issued below par. Before 1918, the exploitation involved was astonishing. An average of 34% of the face value was absorbed by the below par issue and charges. After 1917, the situation changed slightly. The loans contracted between 1917 and 1930 were issued at an average of 88.7% of the nominal value.

b) High interest rates. The average nominal interest charged between 1917 and 1930 was 7%, whereas the real interest rate was roughly 8%. The discount

110 - $470,000,000 - 6,300,000 population.
111 - See: A. Angelopoulos, The Public Debt of Greece, 1937, Athens, (in Greek).

rate at the London and New York markets at that time was roughly 3 - 4.5%.[112]

c) The short term nature of these loans. The mean average life was 32.6 years for the period 1917 - 1930. It was therefore necessary to increase the yearly amortization instalments.

To substantiate our argument, the relationships between national income[113] and servicing costs (including amortization) of the national debts of the Balkan countries are the following:

Bulgaria	2.98%
Yugoslavia	1.68%
Rumania	2.32%
Greece	8.65% (approx.)

6. To gain an overall- although rough - picture, the following individual model is appropriate.

Between 1917 and 1930 the Greek citizen was earning an average of $50.00 a year. From this he had to pay $12, or roughly 23%, in taxes. He owed to foreign capital holders in 1925 approximately $74.5 and in 1930 $95. From the $12 that the State taxed him in 1930, he payed $4.2 or 30% for the service of this debt. This $4.2 was roughly 8.50% of his share of the national income.

112 - A. Angelopoulos, op.cit., p.66.
The English Consolidation Loan of £69,000,000 was issued at this time with a real interest of only 5%.

113 - The national income accounting was started officially in Greece only in 1947. The above figures are based on the work of X. Zolotas (1927) and P. Rediades (1930), the technique of which is highly unsatisfactory. They are presented here merely as an indication.

PART III: CONSEQUENCES

CHAPTER 6

RECONSTRUCTION AND ECONOMIC GROWTH

A. THE FUNCTIONAL MEANING OF ECONOMIC DEVELOPMENT

Having discussed the nation's fiscal policy in Part II, we have now to inquire as to the impact of this policy on the rate of growth and development of the economy.

We seek to understand why, despite the "heroic effort" of balancing expenditures, inflation continued and real income was reduced. What were the latent functional facts beneath the substantial appearances?

But before proceeding to our final query, a digression is necessary. Are we to consider the problem of reconstruction as a problem *per se*, or as part of the ebb and flow of economic evolution? The writer is convinced that reconstruction is a limited case in the overall problem of growth. The reasons are set out below.

Economics as the science of the best allocation of scarce means among competing ends, can only exist

within the framework of an accepted social philosophy. Economic generalizations do not command individuals or society to conform with their prescriptions. They are positive, not normative. Like all scientific laws, they describe tendencies and are determined under controlled conditions. Given the data in some particular situation it is possible for economic laws - ceteris paribus - to draw inevitable conclusions as to their implications.

The factor of change in socio-economic phenomena accounts for the continuous increase in the content of our concepts. When we deal with change, our definitions have to be widened to include more and more of the irregular or accidental variations that had been discarded because they could not possibly claim the elements of universality at one particular point of time. The impact of the factor of change on the social sciences is confusion on the functional meaning of their laws and concepts.

Positive generalizations of the socio-economic sciences explain <u>what is</u> or <u>is not</u> and may be considered static from the point of view of time and the validity of assumptions. The normative generalizations, on the other hand, confront us immediately with a conflict: the

actual world vs. the ideal world. Whereas the first contain no value judgment, the second contain no factual element.

Much of the confusion can be attributed to the fact that any proposition containing information about the function of a class-term is positive so far as the function itself is concerned. This proposition states a fact about the particular units which belong to this class-term, and is, nevertheless, normative with respect to individuals as such.

It follows that whatever the normative implications are for the businessmen or politicians, economic generalizations must attract the interest of pure analysis only because they display uniformities and reciprocal relationships. They are always positive judgments that may or may not have normative implications for individuals and groups.

Some of the economic concepts and terms, consequently, are not altogether easy to be understood. The everyday mind is ready to treat the concepts "substantially", the scientist has to be "positive". The layman, unaware of the reciprocity within the body of knowledge, is satisfied with outside appearances, while arbitrarily translating his subjective feelings into normative and

quantitative generalizations. On the other hand, the economist seeking, through his model experimentation, the cause and effect relationships implicitly assumes the possibility of a reciprocal relation, a two-way causality.

Thus, it is well accepted in the economic sciences that the meaning of such terms as "economic progress", "development", "rate of growth", etc., must be functional within the framework of the accepted purposes of our science.

Ends do not concern us here. Terms like these can be meaningful only with respect to the means we use to satisfy our wants. Whether we choose to live collectively or individually, the finding of new ways to manipulate our economic (scarce) means for the achievement of any end, is economic progress. It is implicit in these terms that what we are really after is an improvement of efficiency in the use of our available means to attain our ends.

The analysis of economic progress is made more important because of the scarcity of our means. Physical limitations, even if existing, are secondary to the fundamental limitation of time. Scarcity in economic resources affects progress through the limitations that

it imposes on the efficiency of labour time.

It is difficult to bring under quantitative measurement any of the above economic concepts except through their relationships with time. We cannot measure the change in want-satisfaction that occurs through the displacement of an old method or commodity by a new one. We simply assume the fact that the change has survived time is sufficient assurance that the satisfaction of wants is now greater and that progress has occurred. But the problem still remains. We need a quantitative basis for comparison.

The relationship with time is sufficient for this purpose. A rise in the quantity of a commodity that can be produced with one man-hour of labour time is assumed commensurate with economic progress.[114]

B. RECONSTRUCTION. A LIMITED CASE

Growth and reconstruction are interwoven. The problem of reconstruction cannot be set apart from the problem of growth. "Construction" of an increasing efficiency in our want-satisfaction is no different from the "reconstruction" of devastated areas. With all its

114 - The man-hours necessary to maintain and replace the means of production must be included also.

dynamic consequences, reconstruction is but part of the dynamic evolution of the world's national societies. Reconstruction is merely an interlude when viewed from the long-run perspective.

The problem of reconstruction is thus not that of "restoration" alone. We have to reconstruct so as to allow the ebb and flow of dynamic evolution to work towards a higher efficiency, a greater economic progress.

Indeed, the post World War I reconstruction effort was slowed down, as we observed in Chapter 2, because of the negative outlook in the problem. The relative stagnation that resulted from the scarcity of investment opportunities was not real. It was imposed by the romantic longing for a pre-war world - a world of 1913. The effort was not a reconstruction. It was an attempt to restore something that had already changed. The irregular or accidental deviations from reality were discarded; policy was unable to accept them as firmly established and tried simply to eliminate them.[115]

C. CONDITIONS OF PROGRESS AND RECONSTRUCTION.

Viewed from the long-run perspective, the

115 - See previous section for the impact of change on economic logic. As for practical proof of this remark the history of the Gold Standard is a good example.

problem of progress naturally depends upon the environment of the social group. Political and social conditions must be closely related to economic efficiency. Unstable governments, traditionally conservative customs and mores, insecure property and revolutionary traditions acquired through historical pressures, actually slow down or even halt progress.

We do not intend to enquire here whether political stability brought about an increase in progress or vice-versa. The fact remains that economic progress depends greatly on social environment.

Progress is nothing else but an upward trend of productivity. It is related to the discovery and application of new methods to our limited means. A differentiation has here to be noted. Whereas in the developed areas the progress is original, the capital scarce countries have to rely on limitation.

The social conditions of progress are, in brief:

a) social stability
b) social fluidity
c) political security, and
d) flexible social customs.

However, the economic conditions resolve to the problem of capital accumulation.

An increase in productive efficiency cannot be accomplished without an increase in the physical capital that participates in production. New techniques and methods require physical capital and there follows a substitution of capital for labour.

Capital can be accumulated only if production exceeds consumption; and in the case of under-developed countries, consumption has to be restricted while output increases. The circularity of the productive process has to be broken. On the other hand, progress in agriculture is more significant than the progress in any other sector. Increased agricultural productivity means higher efficiency in the utilization of resources devoted to this sector. This means that more and more resources will be thrown into the industrial sector and the result will be a higher standard of living. The ability of an average labourer to support an increasing number of non-subsistence workers is the indirect measurement of economic progress.

The final condition for capital accumulation is imperfect competition. Monopolistic profits are necessary for capital accumulation; otherwise, the production of capital goods would resolve to a mere replacement: innovations would not be profitable. Of course the

creation of powerful monopolies restricts progress, and the establishment of fiscal monopolies on near-subsistence goods is an absurdity.

Here briefly are the economic conditions of progress;

a) An increase in overall productivity above the consumption level, particularly in the agricultural sector.

b) At least temporarily, monopolistic markets for innovations.

D. THE "GREEK REALITY"

It appears that we are now in a position to throw some preliminary light on the enigma that surrounds the argument of "Greek Reality".

Amazing as it seems, no Greek economist ever courageously stated that domestic capital was badly needed. It is true that the scarcity was realized, but the discussion was confined to the acquisition of foreign funds. Obscure economic theories were pieced together and the existing physical capital was conceived as an everlasting source of fiscal revenues.

Thus, Greek economic literature was unable to conceive the functional relationships of the economic

system. Instead, the apparent logic of the Marxist system attracted attention and, whether it is admitted or not, a "mystic socialism"prevailed in the writings of almost every "capitalist" economist. The term "capital" was and continues to be an outmoded expression.

For this reason, the problem remained unsolved and only monetary phenomena were analysed. Devices were invented to halt the flow of money but nothing was done towards finding a radical solution to the situation. The creation of an atmosphere of economic security and of investment profitability as related directly with "capital" was also considered outmoded.

The direct result was that at some periods instead of substitution of physical capital for labour, the opposite process took place. Labour was substituted for capital because the physical means of production were wearing off. Extra labour units had to be employed to maintain the level of output with the existent deteriorating means of production, because the funds set aside for depreciation were seeking a more profitable alternative use outside the country instead of being reinvested in capital equipment.

There is no enigma to be solved in the argument of the "Greek Reality". It is simply a problem of

evolution of productivity and of capital accumulation.

It is obvious that inflation is closely related to production. If the flow of goods increases more rapidly than the flow of money, real income will increase. So long as there is excess capacity or new productive investment, the flow of goods would be greater than the flow of money and the danger of inflation would be small. But if the flow of money injected into the economy increases more rapidly than total output, price inflation results. Any attempt of increase production and capital accumulation if financed incorrectly breeds inflation.

P R O D U C T I V I T Y

A. THE DISREGARDED RELATIONSHIPS

In Part II we analyzed the fiscal policy by which reconstruction of the war-ravaged Greece was attempted.

The lack of a systematic reconstruction policy concerning the processes of the accumulation and restoration of capital, is apparent throughout. Instead, an entirely different hierarchy of needs than those required for reconstruction was established. The policy objectives were purely concerned with the balancing of expenditures.

Permanent reconstruction requires either the development of agricultural production or the development of export industries, the products of which will buy the necessary imports.

In the case of Greece, an agricultural country, the development of agricultural production should have been of primary consideration. The invisible cost of the intensive war effort, was in the goods and services not produced, because of the shift of factors of production into the luxury industry of war. This cost can be realized when we take into consideration the sacrifices endured by the Greek people because of a reduced consumption.

Furthermore, this invisible cost can be accentuated when we think of the capital goods that were consumed without replacement during the war. This capital goods consumption manifested itself after the war. At the end of a series of intensive military efforts the whole equipment of the economy was on a lower level than it was at the beginning.

The task of reconstruction is to replace and increase this equipment through production. The Greek people had to produce at a rate that would enable them to increase the rate of capital[116] accumulation. This follows from the fact that the rate of increase of capital (I) is always equal to production (Y) minus consumption (C). The vicious circle of the circularity of the productive process, the fact that poverty is both a cause and a result of the low level of human productivity - had to be broken in order to improve the welfare of the nation.

The increase in the rate of capital accumulation (I) may be attained either by an increase in produc-

116 - The concept of capital is used in its broadest meaning, i.e. the aggregate total of values possessed by the social group. See also Boulding, Kenneth: The Economics of Peace, New York, Prentice Hall, 1946, p.5, Boulding, K., Economic Analysis, Chap.14, Revised Edition, New York 1947, also Robins, Lionel: An Essay on the Nature and Significance of Economic Science, MacMillan & Co., London, 1948, Ch.1.

tion (Y), with the aggregate consumption (C) constant; by keeping production (Y) constant with a forced decrease of consumption (C); or by measures combining both increase in production and a forced decrease in consumption.

In poor countries like Greece, the process of post-war capital accumulation was very difficult. Such countries have insufficient capital to enable themselves to produce at a rate much above the minimum of consumption; thus, even at low levels of forced consumption, nearly all production is consumed and the rate of capital accumulation is extremely low.

In the case of Greece, this argument may be further elaborated. Greece is primarily an agricultural country and war produced a structural change in that the nation had to maintain a structure of non-subsistence occupations, the support of which was beyond the capacity of her agricultural production.

War is a luxury. It must be supported by existing agricultural and other wealth. Poor peasants, whose resources are just sufficient to produce what they consume, can never support a non-agricultural structure the existence of which is based on agricultural surplus. The output per man in agriculture is low, consequently agricultural population is high, and labour efficiency low. The 57% of the available man-hours of agricultural

labour are wasted in Greece.

The importance, therefore, of developing the subsistence industries in the post-war period has always been imperative. Resources employed previously in these industries and shifted during the war into military production must be reallocated to the subsistence goods industries in order to release resources needed for the increase in the rate of capital formation. This release of resources is effected through the resulting increase in output of the subsistence goods industries.

The policy of the Hellenic administration concerning agriculture was unfortunate. Instead of concentrating on raising the per capita productivity of subsistence goods industries, in order to effect a long run increase in production and rate of capital goods formation, the political power of the incoming refugees obliged the government to introduce extensive agricultural reforms. In Chapter 4, Section B, we discussed their effects. The result was that agricultural production sank to the minimum consumption level of the farmers themselves, while the physical limitations of the resources discussed in Part I made impossible an increase in capital accumulation. This agricultural output had to support an oversized industrial structure. We shall next substantiate our argument concerning the decline in productivity.

B. MANPOWER AND THE DECLINE OF PRODUCTIVITY.

Available statistics on changes in the size and distribution of manpower in Greece are too fragmentary to permit any comprehensive analysis. Even simple comparisons of total populations before and after the War may involve serious difficulties of interpretation owing to territorial changes, transfers of populations, etc. From such evidence as is available the following broad conclusions can be drawn:-

1. The total population increased by approximately 1,170,000 from 1920 to 1930.

2. The evidence available indicates that the population of working age has, on the whole, proportionately increased at a rate slightly more than that of the total population. The total population increased by roughly 25% whereas the population of working age increased by 27%.[117] Thus it appears to be generally true that the total population remained relatively more stable than did the population of working age.

3. Comparative figures for the labour force (including the unemployed) and the total population of working age show that they both increased proportionately.

117 - See Annuaire Statistique de la Grèce, p.50, 51, Table 8.

The labour force rose by 800,000 and the population of working age by 820,000.[118] The proportion of women in the population of working age slightly increased and, since most men of working age are in fact members of the occupied population (labour force), it may be inferred that the proportion of women among the occupied population has increased.

4. Regarding the distribution of the occupied population, such evidence as is available indicates that there has been a sharp increase in the numbers occupied in the agricultural sector and the service industries. The proportionate increase in employment in the service industries appears in general to have about equalled the proportionate loss of manpower in industry, mining and transportation.

5. The labour force in industry is, however, much more fully utilized than it was before 1920.

6. Within the industrial labour force itself there has been a certain shift from "heavy" to "light" occupations. The following table gives the complete picture of the occupational distribution of the population (1928):

118 - From 1,600,000 in 1920 to 2,400,000 in 1928.

Occupational Percentage Distribution of Population[119]
(Comparative Table)

	Census 1928	Census 1920
Agriculture & Fisheries	60.11	57.52
Mining	0.26	0.53
Industry	17.80	18.21
Transportation	4.42	4.85
Credit Institutions	0.95	0.59
Commerce	7.68	8.19
Personal services	2.38	3.24
Liberal Professions	3.56	3.84
Public Service	1.84	3.03
	100.00	100.00

1920: Total labour force - 1,600,000
1928: " " " - 2,400,000

Women occupied in 1920: 220,000 (approx.)
" " " 1928: 600,000 (approx.)

7. Comparative employment and production series are not available for Greece. From such evidence as is available the following conclusions can be drawn:

Agriculture

The average yield per acre, as we mentioned in Part I, remained steady with minor seasonal fluctuations between 1911 and 1932. Only after 1933 did the average yield increase and then by roughly 35% owing to the introduction of new agricultural techniques.

119 - Annuaire Statistique de la Grece, 1938, p.56.

The population, respectively, increased from 1911 to 1930 by approximately 120%[120] through natural growth and the exchange of populations with Turkey.[121] The per capita productivity was obviously decreasing throughout the period under consideration.

The cumulative effect of insufficient use of fertilizers both during the War years and after the War (caused by the shortage of both natural and artificial manures), loss of livestock and deterioration of agricultural equipment, and unfavourable weather conditions were also responsible for the loss of productivity.

While production per capita declined, consumption remained steady above the subsistence level. A necessity for subsistence goods imports thus existed throughout 1917 - 1930 with unfavourable consequences for the balance of payments.

The above situation in Greece followed closely the European pattern of agricultural recovery after the First World War. Agricultural output recovered much more slowly than industrial. The absolute agricultural output was not generally restored in Europe until eight years after the end of the War. In Greece it was not restored until 1932 and <u>like overall European production never again</u>

120 - 1910: 2,632,000; 1920: 4,814,000; 1930: 5,908,000; <u>Annuaire Statistique,</u> 1938, p. 512.

121 - See Chapter 1, Section D, of the present thesis.

caught up with the growth of population. Even the absolute restoration of pre-war output in 1932 still meant a 60% reduction in output per head as compared with 1910, owing to the increase in population. The comparison with absolute production of 1920 indicated an overall net decrease of 10% in the 60% average because the increase in population slowed down while production per acre increased by 35%.[122]

Industry.

The only evidence available is in the mining industries and in finished metallurgical production. The following table shows the real output in metric tons:-

	Iron	Zinc	Manganese	Nickel
1910	608,349	37,108	-	.185
1911	496,731	35,956	-	6,724
1912	376,931	39,583	-	15,979
1920	45,579	2,691	-	-
1921	54,925	1,920	-	-
1922	49,272	-	1,310	-
1923	100,115	4,026	-	-
1924	102,221	4,861	5,826	-
1925	88,216	7,594	4,303	-
1926	126,624	34,751	6,348	.500
1928	166,868	17,671	1,080	10,800
1930	256,161	-	-	-
1932	46,022	-	.745	20,064

Source: Annuaire Statistique, 1938, op.cit., p.453

122 - 1910 - 1920 increase of population by roughly 82% due to the annexation of new territories. 1920 - 1930 increase of population by 25%.

The evidence shows that after the First World War heavy industry never reached the absolute production level of 1910 - 1915.

As for per capita productivity, the above series indicate that the output never reached the pre-war level. However, labour employed in metallurgical production declined by far less than did the average decline in total output. This signifies that employment increased much more than production, thus a lower level of per capita productivity was obtained.

Productivity is simply the ratio of production to employment. Even if we assume that the per capita productivity in the industrial sector actually remained the same, the overwhelming impact of the diminished productivity in the agricultural sector indicates that the overall per capita productivity must have been declining from 1917 to 1930.

The consequences of these broad conclusions are extremely important. Up to now, the writers on this subject misled by the inflated money value of production assumed that economic progress had been achieved in Greece.[123]

Absolute output remained steady during 1917 -

123 - A. Sbarounis, Two Reconstructions of Greece, Andreadis, op.cit.; Angelopoulos, op.cit.; Zolotas, op.cit., and others.

1930, thus it never caught up with the increase in population. It is irrelevant to assess the rate of growth by the misleading figures of depreciated money and it is unsound analysis to use as a measure of progress, quantities unrelated to time and population. It is not absolute quantities but rather the increase in the amount of a commodity that can be produced with one man-hour of labour time that constitutes economic progress.

There is also another point which must be mentioned. Scattered increases in industrial productivity (electricity, chemical industries, paper mills, etc.) appear to have been closely co-related with changes in production. This conclusion is supported also by a more detailed examination of relevant movements in production and employment in these individual industries.

The sharp increase in paper production, for instance, during the late twenties, produced a rise in the productivity of labour in this sector although at a negligible rate.

This relationship may be explained by the fact that where production is limited by a lack of raw materials rather than by demand, the entrepreneurs prefer

to retain workers even though they may not be fully occupied. There is, thus, a concealed under-employment in the labour force which is automatically reduced with improvements in the supply of raw materials.

Although this factor is undoubtedly important, the low productivity levels cannot be fully explained without reference to other forces. The chronic inflation and the deterioration of capital in quality as well as nature forced some industries to use more technical personnel for maintenance or more labour in the productive process. This substitution of labour for capital which continues today (1951) in Greece broke down the efficiency of production. Diminishing returns resulted. However, it is not possible to distinguish between that part of the loss in productivity arising from the poor state of equipment and the substitution of labour for capital - the elimination of which required capital investment - and that part which is due to organizational factors which could have been remedied.

It is evident that only an increase in productivity could have ameliorated the situation. Any further increase in output would have to have come primarily from improvements in productivity rather than from further

additions to the labour force. Therefore, encouragement of migration is absolutely necessary, a fact that the Greek Government always refused to consider.

Instead of the monetary devices - like the bisection of the currency - a policy directed towards increasing labour productivity should have been applied. Prices could not be stabilized while real per capita income was decreasing and the policy of balancing expenditures was being carried out without any break in the circularity of the productive process.

CHAPTER 8

I N F L A T I O N

A. THE APPROACH

The prospects of raising production in Greece and thus the nation's ability to export, are closely bound up with monetary and financial stability. The increase in the rate of capital goods accumulation ($I = Y - C$) implies either restriction of internal consumption or encouragement of imports from external sources as well as directed investment.

More specifically, the role of government finances can be fully realized when we consider the following system of ex ante or period equations.[124]

$$Y_1 = C_1 + I_1 + G_1 + X \qquad (1)$$
$$Y_o = C_1 + S_1 + T_1 + F_1 \qquad (2)$$

$$Y_1 - Y_o = (I_1 - S_1) + (G_1 - T_1) + (x_1 - F_1) \qquad (3)$$

The significance of equation (3) is apparent. It shows the three main ways of approaching the problem of maintaining full employment without inflation.

When prices rise faster than the flow of goods money income may be increasing while real income is

124 - B. Higgins: "The Modern Theory of Economic Fluctuations", Ch. VII of Twentieth Century Economic Thought, New York, 1950, p.299.
Y_1 = today's income G_1 = government expenditures
Y_o = yesterday's income X_1 = exports
C_1 = today's consumption F_1 = imports

diminishing. Today's money income will be greater than yesterday's income for the community as a whole while the real income is decreasing. Today's investment (I_1) will rise above savings and enterprises will hurriedly invest their inflationary profits. If government expenditures (G_1) are not balanced, the excess amount of G_1 over tax revenues will accelerate the inflationary rise in money income (Y_1).

The balance of trade on the other hand, if favourable, will increase the money income of the community as a whole, thus creating another source of inflation. In brief, the government can attack inflation through the following measures:-

a) Closing the gap between Investment and Savings by applying direct controls on private investment and prices and by stimulating savings with public loan campaigns and other measures.

b) Balancing the budget or producing a surplus of current revenues over expenditures.

c) Inflation calls for an import surplus. But in the event of a scarcity of foreign assets exports can be promoted to provide the necessary import funds.

It is not surprising that a strong inflation-

ary pressure was inherited from the First World War by practically all European countries.[125] Although the magnitude of the post World War I price inflation varied greatly in the different communities, there are few nations of which it could be said that the problem of inflation was functionally approached and successfully solved. Actual inflation or the threat of it remains, therefore, one of the major factors impeding the progress and growth of under-developed areas.

Furthermore, the effort to increase the rate of capital accumulation is offset by a constant pressure to raise consumption above available resources, as occurred in Greece. The increase in the propensity to consume that always follows great wars is the fundamental explanation of why inflation has always been inherited from these wars.

As soon as the war is over, the state is confronted with a post-war increase in consumption (decrease in savings), while a large proportion of the productive capacity must be turned over to the capital goods industries. In most cases, the governments are unable to balance the post-war budgets as happened in Greece. Taxes are evaded as a rule, while the public

125 - See our Chapter 2, "The Cycle".

becomes unwilling to lend to the government and accept the consumption sacrifices that lending requires.

Inflationary pressure in countries like Greece thus tends to distort the normal price and income structure and to divert resources from the production of the most urgently needed goods into less essential commodities. Moreover, it tends to raise imports and lower exports, thereby aggravating the problem of the balance of payments which is so important for the capital-scarce country like Greece. Finally, the real costs of production are raised by the application of wasteful methods or by weakening normal economic incentives.

The degree of the inflationary pressure depends upon whether it is anticipated or not. If inflation is anticipated then instead of having a decrease in consumption, we have an encouragement to spending. Unfavourable expectations[126] always stimulate hyper-inflations as occurred in most of the European countries during the First and Second World Wars.

Moreover, faith in the stability of money always plays an important role to the extent inflation is anticipated or not, and, consequently, contributes to the success or failure of inflation as an instrument of restricting consumption and stimulating capital accumulation.

126 - Concerning mainly the socio-economic conditions of progress as stated in Chapter 6, Section C.

If inflation is conceived by the government as a method of financing economic progress by which the system attempts in the absence of deliberate policies of a non-inflationary nature, to reduce effective demand to the volume of available real resources, then faith in the economic and political environment is fundamental. In countries like Greece, where the faith in the economic and political situation has gradually vanished, inflation thus conceived must always be self defeating and even disastrous.

B. MOVEMENT OF PRICES AND MONEY

As emphasized in Part II, the Greek government attempted to preserve the stability of the price structure through extensive borrowing while this attempt was offset by the simultaneous creation of money! It was also emphasized that due to the frequent recourse to this printing of money without any systematic application of direct controls on production, prices were allowed to soar. This rise in prices has filled the gap arising out of surplus spending. Thus the scarcity did not acquire for the wage earner the form of a scarcity of goods but rather of a scarcity of income. In countries where direct controls are applied, the scarcity of goods in the system is apparent. Whereas if prices rise as fast as monetary expansion the pressure of wages acquires <u>apparently</u> the

form of a scarcity in income rather than in goods.

The following table illustrates the price experience of 1917 - 1930:

1914 = 100

1917	156	1924	1235
1918	366	1925	1414
1919	323	1926	1633
1920	351	1927	1790
1921	398	1928	1868
1922	636	1929	1923
1923	1181	1930	1682

Source: Annuaire Statistique de la Grece, 1934, Athens, p. 459.

The currency circulation was as follows (in 1000 drachmas):

1914:	National Bank of Greece....	236,300
	Ionian Bank Ltd.....	6,521
	Bank of Crete.....	5,854
		248,675
1917:	National Bank of Greece....	670,000
	Ionian Bank Ltd.....	5,840
	Bank of Crete.....	10,563
		686,403
1918:	National Bank of Greece....	1,034,100
	Ionian Bank Ltd.....	5,679
	Bank of Crete.....	10,695
		1,050,474

1919: National Bank of Greece....1,333,200
Ionian Bank Ltd..... 6,573
Bank of Crete..... 8,997
1,348,770 [127]

1920:	1,425,300	1926:	4,519,000
1921:	1,832,100	1927:	4,952,000
1922:	2,094,300	1928:	4,863,300
1923:	4,125,800		(14th May,1928) [127]
1924:	4,646,600	1928:	5,445,000
1925:	5,266,000	1929:	5,388,000
		1930:	4,895,000

Source: Annuaire Statistique, 1934, p.437

Using the 1914 currency figure as base date, we arrive at the following circulation index:

1914 = 100

1917:	277	1924:	1873	
1918:	423	1925:	2123	
1919:	543	1926:	1822	
1920:	574	1927:	1997	
1921:	738	1928:	1960	(14th May, 1928)
1922:	844	1928:	2195	
1923:	1664	1929:	2173	
		1930:	1971	

Source: Original.

Comparing the two indexes we have the following composite picture of the relative movements:

127 - The issues of Ionian Bank and Bank of Crete were withdrawn. The National Bank continued to issue currency until 14th May, 1928, when this privilege was granted to the Bank of Greece.

	Prices	Circulation		Prices	Circulation
1914:	100	100	1923:	1181	1664
1917:	156	277	1924:	1235	1873
1918:	366	423	1925:	1414	2123
1919:	323	543	1926:	1633	1822
1920:	351	574	1927:	1790	1997
1921:	398	738	1928:	1868	2195
1922:	636	844	1929:	1923	2173
			1930:	1682	1971

We note that prices were not rising as fast as the money flow. Only at the end of the twenties does the price level approach close to the money index, only to descend after that.

In order to isolate the important variables of the above experience, we may as well introduce here the well known "quantity of exchange" equations. The use of these equations must not be misunderstood as adherence to what has been called the "crude quantity theory of money". Price levels do not vary with the quantity of money alone. If the money flow increases and the increment is held idle, the velocity will fall and the price level will remain constant. Effective demand is unchanged. An increase in the flow of goods could also offset the rise in monetary circulation.

Three main explanations may be offered as to why the price level in Greece did not rise as much as the monetary circulation:

a) Production increased.

b) Price or other controls were established.

c) The velocity of circulation decreased.

Available statistics on the changes of income, as we have mentioned on several occasions, are too arbitrary; and the available data for savings start only after 1926. Our task, therefore, is extremely delicate. Although the best available sources are too fragmentary to permit of any comprehensive analysis,[128] from such evidence as is available broad conclusions can be drawn.

The main objective here is to prove that the most important explanation of the price - circulation movement is the decrease in velocity - in the absence of direct controls - rather than any substantial increase in the flow of goods.

Let P_1 - Price level of period 1

P_2 - Price level of period 2

M_1 - Money circulation of period 1

M_2 - Money circulation of period 2

G_1G_2 - Flow of goods of successive periods

V_1V_2 - Money velocities of periods 1, 2

The quantity of exchange equations gives us the following isolations:

128 - The Annuaire Statistique records the savings figures as part of the banking liabilities in the individual balance statements of the banks.

$$P_1 = \frac{M_1 V_1}{G_1} \qquad (1)$$

$$P_2 = \frac{M_2 V_2}{G_2} \qquad (2)$$

Values given:

$M_2 \rangle P_2$ and $M_1 \langle P_1$

By subtracting (1) from (2) we have:

$$P_2 - P_1 \text{[129]} = \frac{M_2 V_2}{G_2} - \frac{M_1 V_1}{G_1} \qquad (3)$$

Velocity figures are not available and as far as the total flow of goods is concerned we gave evidence of a more or less steady total output during the period 1917 - 1930 in Chapter 7. We could thus state more or less safely that G_2 remained steady or had a very small increase not enough for the $\frac{M_2 V_2}{G_2}$ to acquire the value required for obtaining equality of the two parts of the equation (3). The flow of money (M_2) was, however, increasing. Thus, it is more likely that the velocity of circulation was decreasing.

129 - Except for the years 1919 and 1920 this relationship is positive. But even if $P_2 - P_1$ was a negative value, the second part of the equation has to have a negative value also. This means that $\frac{M_2 V_2}{G_1}$ is smaller than $\frac{M_1 V_1}{G_2}$. But M_2 was increasing in 1919 and 1920, which means that either velocity was abnormally low during these two years or that the flow of goods suddenly increased sufficiently to make the $\frac{M_2 V_2}{G_2}$ smaller than $\frac{M_1 V_1}{G_1}$. This is very doubtful, particularly because of the military situation.

Velocity is a ratio of a flow to a stock. In the absence of sufficient national income accounting, the attempt to measure the velocity of currency is doomed to failure. Some indications though can be obtained of the velocity of the bank deposits (V') and assume that the currency velocity moves in the same direction or remains constant.

The evidence at our disposal, fragmentary as it is, produces the following series:-

$$V' = \frac{\text{Bank clearings}}{\text{Bank deposits}}$$

	V'		V'
1926	0.60	1929	0.50
1927	0.55	1930	0.33
1928	0.515	1931	0.31

Source: The values for clearings: Annuaire Statistique, 1934, op.cit., p.291, Deposits in "Bank Liabilities", op.cit., p.293.

Thus, the decrease in velocity of circulation - assuming that the currency velocity moved in the same direction or remained constant - was likely enough alone to keep the price level below the level of monetary circulation without any increase in the flow of goods.

CHAPTER 9

RECONSIDERATION OF THE POLICY

The necessary basic conditions for any anti-inflationary policy in Greece at this time were that at the existing level of prices the expenditures on capital account - government, private and additions to inventories - must not exceed the volume of available savings. These main conditions obviously open the road of approach to the problem stated in Section A of Chapter 8. They naturally imply monetary stability and consequently the re-establishment of the budgetary balance.

The doctrinal limitations of the fiscal objectives, the substantial ignorance of the functional relationships of the systems, and the method of financing the historical occurrences produced the discussed movement of prices and currency. For the purpose of this chapter, we sum up the real causes of the continuous inflationary pressure during the period 1917 - 1930:

a) Excessive expenditure in relation to revenue.

b) Reduced propensity to save (increase in the

propensity to consume) by the public and deterioration of the per capita productivity.

c) Increase in effective demand accumulated during the War and further stimulated by large consumers subsidies which tended to increase income by the full extent of the outlays.

d) Large expenditures needed for immediate relief purposes.

e) The irrational methods of financing deficits by foreign borrowing and the simultaneous creation of money with all the implications discussed in detail in the relevant chapters.

f) Hoarding of commodities as financial security against the diminishing confidence in currency (gold sovereigns , foreign currencies, subsistence commodities). This hoarding was either speculative or a means of preserving the real value of savings out of income or the real value of depreciation out of the existing capital investment.

A. THE INVESTMENT-SAVINGS GAP.

As we have mentioned, the establishment of any anti-inflationary policy in Greece implied monetary

stability, which in turn required the re-establishment of the budgetary balance. But the main cessation of deficit spending by the government might not have been sufficient to eliminate the aggregate investment-savings gap. This gap could be closed either by inducing a greater volume of savings or by controlling private investment.

A policy of increasing voluntary savings should have been established. The problem is complicated by the fact that with the gradual depreciation of currency the voluntary savings of the Greek public became smaller in real terms. Thus a drastic system of forced savings and direct controls would have been appropriate to fill the investment-savings gap.

However, the problem of increasing voluntary savings was important not only as a short run objective. Any development program requires a sufficient volume of savings to be carried out. No policy of encouraging voluntary savings has ever been conceived in Greece. Conditions for any program to this effect as well as suggestions for its success are set out below.

The basic encouragement to voluntary savings is the saver's desire for security from insolvency and risks. Inflationary methods of financing deprive savers of a portion of the real value of their savings, unless they

hold their savings in the form of gold, foreign exchange and subsistence commodities. The saver must thus be offered every possible guarantee that no inflation will occur.

One of the most important stimulants to saving in under-developed countries like Greece is the encouragement of reinvestment of business profits. But there is a danger that profits tend to be primarily reinvested in the same or closely associated line of economic activities as has occurred in Greece. Unbalanced development and monopolistic situations are thus promoted.

The loss of faith in Greek currency caused a hoarding of commodities highly undesirable in form. Apart from the avoidance of inflationary pressure, a proper fiscal policy by the Greek government could have diverted these savings into productive use by granting tax privileges on income from savings held in useful form. Direct controls to prevent credit institutions from diverting proportion of their funds into speculative transactions would have been useful in promoting voluntary savings and increasing the funds available for reconstruction and development.

Moreover, direct controls on investment might have been appropriate owing to the extent of the increase in the price level. Because of the lack of national income account-

ing for the period 1917-1930, we cannot substantiate the necessity for controls.

One other reason made the use of direct controls advisable in the early twenties. They could have been employed for allocating scarce resources to essential investment; for directing labour into desired projects or for reducing the demand for resources, which demand competed with economic development.

The application of a policy closing the investment-savings gap as outlined above was completely absent. There were a few applications by the Greek government of some of the methods outlined above directed towards restricting consumption and encouraging imports, but these were purely accidental. As we have repeatedly pointed out, no systematic scheme and hierarchy of needs was established concerning the growth of capital during the early period after the First World War.

As a matter of fact, the chronic trouble with modern Greek finances has always been that on no occasion did the responsible administration plan in advance the hierarchy by which the process of capital accumulation could be stimulated. The savings part of the problem was completely neglected; "dead-weight" loans were contracted

and it was never thought to use these funds to increase capital accumulation at a rate that could enable the country to acquire a higher standard of living. The vicious circle of the circularity of the productive process was never broken and the poverty of the Greek peasant still remains a cause as well as a result of the low level of human productivity.

B. THE BUDGETARY GAP.

Budgetary policy exercises an important influence on reconstruction and economic development. The objective should not be merely that of balancing the expenditures with revenues as the substantial approach requires. Thus the re-establishment of the budgetary balance, one of the main conditions for monetary stability, has to take into account the function of the variables in the system. The objectives, thus conceived, may be summarized as follows:

a) Budgetary policy must be used to counteract the inflationary pressure arising from reconstruction and economic development by reducing the overall effective demand. The Greek fiscal policy of the period 1917 - 1930, described in Part II, was exactly the opposite - effective demand was continuously created through the various relief and

pension programs. If budgetary policy could have reduced the overall effective demand, satisfactory conditions would have been established in which anti-inflationary methods of finance such as encouraging voluntary savings and foreign capital might have been employed.

b) Taxation may release resources for reconstruction and development by curbing consumption and unessential investment.

c) Fiscal policy must be employed as a combination of positive inducement for investment as well as discouragement of undesirable investment. This objective can be achieved by granting appropriate tax exemptions and differential rates of taxation.

d) Fiscal policy may promote such objectives as changes in income distribution by establishing a flexible system of progressive taxation.

Budgetary balance was conceived in Greece as a problem <u>per se,</u> as stated on several occasions. Thus the only attempt of the government during 1917 - 1930 commensurate with the summary of objectives given above was to promote, allegedly, changes in income distribution by establishing a system of progressive taxation. The

results were negligible due to the size and structure of Greek foreign debt. No functional conception is associated however, with this attempt. The tax legislation recorded in Section B of Chapter 5 was forced into existence rather by accident than by desire.

Equalization of income distribution or rather of the economic surplus - difference between total production and production needed for physical replacement of the factors of production - depends upon the quantity of this surplus; upon economic progress itself. It was irrelevant, therefore, to establish a policy that corrected inequalities in the distributive shares when nothing was done towards increasing the distributable share available.

Moreover, non-monetary transactions in the agricultural sector of the Greek economy created conditions in which proportion of the Greek national output never reached the market at all. Income taxation was desirable but also extremely difficult to administer. Accordingly, indirect taxation occupied a more important place in the overall structure as we mentioned in Chapter 5. The taxes mentioned in that Chapter were never conceived as means for financing development and reconstruction. Revenues that could have been used for

this purpose include revenues from taxation on income, taxation on essential imports, on property, profit and a wide range of others.

No attempt was made to use the budget as a weapon of discrimination between different types of investment, a policy so important for under-developed areas like Greece. Taxation was not used to set free productive resources; it was used as a source of financing foreign capital used mainly in balancing the budget. These budgetary deficits as we have seen, were due to the excessive requirements for war and post-war relief. This rise in government expenditure due to the known historical necessities and the deficit spending thereof, resulted in an increase of 28% in the national debt, according to the evidence presented in Chapters 4 and 5. These funds were used mainly for balancing budgetary deficits and the terms of their supply were so unfavourable that domestic taxation ceased to be of any functional importance for reconstruction and development. When taxation absorbs resources which would otherwise have been saved <u>voluntarily,</u> as during the period of repayment, it makes no net addition to the financing of economic development.

<u>Import duties</u> and <u>fiscal monopolies</u> were imposed in Greece for revenue purposes only. Instead of being

used as possible subsidies to develop projects or finance development without budgetary deficits they were entirely consumed in the service of foreign loans. Coupled with domestic controls these import duties should have been imposed for the sole purpose of reducing the importation of consumption goods. The imposition of import duties without domestic price controls or other anti-inflationary methods may result, as they did in Greece, in a mere substitution of home produced goods for imported consumption goods without suppressing consumption.

Because in Greece a large proportion of the higher incomes tends to be spent on imported luxuries, an organized import tariff system should have been conceived as a substitute for or as an addition to the progressive income tax which, although desirable, was extremely difficult to administer due to the non-monetary transactions mentioned above.

It is notable, however, that compared with other European countries, the real volume of overall taxation in Greece was not allowed to sink to low levels in the course of the inflationary process. On the contrary, it was fairly well maintained. As a matter of fact, we must recall that whereas in 1915 the per

capita revenue was U.S. $7.15, in 1925 it was U.S. $12.00, approximately.

It may be assumed, moreover, that the inflationary gap of the Greek budget created by public expenditures was even greater than the figures of Chapters 4 and 5 would indicate. Tax revenues were in many cases kept up by extraordinary levies - Capital Levy 1923 - which the taxpayer does not regard as a reduction of his spendable income and which may not, therefore, cut down consumer expenditure in the same way as recurrent taxes. Expenditures, on the other hand, include large outlays on subsidies which tend to increase spendable income by the full extent of the outlays.

C. THE EXPORT-IMPORT GAP.

The first step of reconstruction is always a relief scheme that will provide the necessary materials for the capital accumulation process. Raw materials and foodstuffs must be brought into the country from the rest of the world in order to build up the capital required for a long-run export policy.

Thus the function of imports in the process of reconstruction acquires particular importance, Imports must be financed by either foreign assets or by funds

obtained from exports. Export surpluses involve a reduction in consumption, since the goods thus exported are withdrawn from domestic consumption. This creates inflationary pressure on prices, which have to be controlled.

In Greece, per capita imports were much above per capita exports during the entire period 1917-1930. Owing to the more or less steady agricultural output and the increase in population the pressure of subsistence goods on the balance of payments was steadily increasing.

Instead of encouraging an expansion of production of such goods by importing the physical capital required while reducing home consumption, the Greek government financed imports by using 5.8 per cent only of the foreign loans contracted. Sound policy aiming at reconstruction and economic growth requires the establishment of a priority scheme in imports. The soundness of a foreign loan is considered only according to the extent to which it creates sufficient exporting power to pay the interest plus the capital borrowed.

The foreign loans contracted by Greece should have been thus confined after the emergency period of relief to the expansion of production of primary commodities. Instead, they were used mainly to satisfy

government consumption wants. 30.96 per cent of the foreign loans contracted after 1923 were actually used in public investment, creating thus another source of inflation while their positive effects on production were very doubtful: no priority scheme was incorporated in the policy of the period and output remained the same.

In the absence of any foreign assets the domestic financing of imports needed for reconstruction and development could have been achieved in Greece by the following methods:

a) Increase in exports of particular commodities by an expansion of the production of these commodities.

b) Increase in the value of exported goods by further processing, improving in quality, standardization, blending and packing. Greek export goods are particularly suitable to this method of increasing their value.

c) Export of types of commodities not previously exported.

d) Expending the "invisible exports" - the services in connection with foreign trade such as banking, insurance - as well as the encouragement of Greek shipping industries.

The value of foreign trade generally as a method of financing economic reconstruction and growth is considerably reduced by the wild price fluctuations to which many primary materials exported by capital scarce countries like Greece are subject. Export surpluses therefore were difficult to attain, however, there was an imperative necessity to increase exports in order to fill gradually the import-export gap.

This brings our enquiry into the economic policy of the era to an end. Sufficient evidence has been given of the fallacies of Greek policy and suggestions made of the correct approach.

It is not possible to summarize here the lessons of this period. Neither is it necessary. From the analysis of each episode or situation the lessons emerge by themselves. Nor is it helpful to tie these lessons together in a series of generalizations and normative conclusions. If we try to integrate the lessons from each episode of our analysis, we shall be kept wondering what to include.

Our ex posteriori judgment of government policy has not inspired confidence in the economists and the political parties of that time. But it was not their fault: "Economists in the early twenties wrote of current events as meteorologists wrote of sun and rain"

says W. A. Lewis.[130] Forecasting was considered as beyond human control and the economic system was left to function by itself.

One of the outstanding lessons of our analysis is that governments cannot sacrifice the welfare of nations by remaining indifferent to the course of economic events. Intelligent and positive action is needed. Fortunately, economic and weather forecasting developed side by side and governments now have at their disposal an ever increasing array of analytical tools that only prove there has never been a magic formula guiding the welfare of nations.

As we enter the international scientific horizon of the thirties, the Smithian "invisible hand" and the automaticity of the natural order fade away into the distant past. And yet this world is not as distant as it seems; elements of the "meteorological" economics still are established in Greece. The author, like the everyday citizen, wonders whether Greek academic economics is not really the greatest hindrance to the prosperity of the nation. Ignorance could be excused in the early twenties, but there is no excuse

130 - W. A. Lewis, Economic Survey, London, Allen & Unwin, 1949, p.199.

today, in the early fifties, for the use of Adam Smith's "invisible hand" to guide the welfare of the Greek nation - invested with all the implications that an exaggerated "mystical" touch can produce.

APPENDIX

GENERAL STATISTICAL DATA

(Source: Annuaire Statistique, 1938, in the relevant Chapters)

a) Geological Formation.

Greece occupies the south-east extremety of Europe in the Balkan Peninsula. The land was part of the bed of the sea that covered that section of Europe during the geological centuries that preceded the cainozoique; it emerged during the Alpic earth displacements. The extensive geological ruptures that followed are accounted for the final form of the Hellenic territory and for its horizontal and vertical articulation.

A remarkable concentration of minerals was generated by the mechanical and chemical phenomena that took place during the geological formation of the Greek land.

b) Geography.

Greece is actually separated from its neighbouring countries by a total of 1.180,6 kilometers or 734,4 miles (ratio 1000 : 1609). Since 1923, her territory has a total surface of 130.199 square kilometers or 50.273

sq. miles (ratio 1 : 2.59). 82.3% of this surface corresponds to the continental territory while the remaining 17.7% to the islands.

c) Territorial Evolution.

The London protocol signed February 3, 1830, recognized the independence of the modern Greek state, while by virtue of the Treaty of Constantinople (9th July 1832) the frontiers of the nation were definitely fixed. The surface occupied then by the Greek state was 47.516 square kilometers and the country was composed of the area of central Greece, the Peloponese Peninsula, the Island of Eubea, the Cyclades and other smaller islands.

In 1864, by virtue of the London Treaty the Ionian Islands were annexed. Thessalia and Arta (north-western Greece) were annexed by virtue of the Constantinople Convention of 1881.

In 1897, small modification was effected to the northern frontiers by the return to Turkey of 395 square kilometers (Treaty of Constantinople).

To the above territories the London and Bucharest Treaties of 1913 added Macedonia (the largest and most fertile northern province of modern Greece), Epirus (north-west part of Greece) and the big island

of Crete, while the islands near Asia Minor were annexed by virtue of the arbitrary decision of the Six Big Powers in 1914.

After World War I, the expansion of the Hellenic frontiers continued. The Neuilly Treaty of 1919 gave a small part of Devikli territory to Greece, while Eastern as well as Western Thrace were given to Greece by virtue of the Treaty of Sevres (1920).

Finally Greece lost to Turkey the territory of Eastern Thrace (Lausanne Treaty 1923) as well as the islands of Imbros and Tenedos.

The following table shows the territorial evolution of Greece:

1. Initial surface after Independence (1832)	47.516	square	kilometers
2. Territory of Ionian Islands annexed in 1864	2.695	"	"
3. Thessalia and Arta (1881)	13.995	"	"
4. Territory after session of 395 sq.kilometers to Turkey (1897)	63,211	"	"
5. Territories annexed after the Balkan Wars (1913)	58.583	"	"
6. Annexes after World War I	29.039	"	"
	150.833	square	kilometers
7. Territory lost to Turkey (Eastern Thrace, Imbros, Tenedos, 1923)	20.634	"	"
	130.199	square	kilometers

The composition of the Hellenic state immediately after the Lausanne Treaty is given below:

Central Greece and Eubea	24.995.8 sq. kil.
Peloponese	22.282.8
Cyclade Islands	2.580.2
Ionian Islands	1.921.5
Thessalia	13.334.4
Macedonia	34.892.8
Eperus	9.351.0
Crete	8.286.7
Islands of the Aegean Sea	3.847.9
Thrace	8.706.3
	130.199.4

d) Evolution of Population.

The annexation of new territories combined with the natural growth expanded the population of the country. The density increased from 19.76 inhabitants per square kilometer to 41.64 in 1907. In 1920 the ratio decreased to 36.67. The cause: annexation of new areas (Thrace, eastern and western) somehow under-populated. In 1923 the main part of this newly acquired territory was lost to Turkey, and in 1923 after the Treaty of Lausanne, the Hellenic population amounted to 6,077,000. The density ratio was 46.67.

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