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SECRET

REP RT OF THE
AMERICAN ECONOMIC MISSION TO GREECE

SUMMARY

The people of Greece have an opportunity to move forward to an era of reconstruction and internal peace. Alternatively if the present policies of drift and expediency are continued, they will result in economic disaster to all her people and perhaps forfeit for a generation Greece's chance to rebuild and to establish a stable economy. The American Economic Mission to Greece has attempted to discover what foreign aid is needed and what internal economic and administrative measures must be employed if Greece is to move forward.

We have examined problems of governmental organization, budget expenditures and revenues, export potentialities and import requirements, monetary and credit policies, reconstruction and development, and many other related matters. Our analysis of the economic aspects has not been easy; they are closely related to and substantially affected by political, military and psychological considerations. From an intensive study of Greece's current problems and a survey of her future potentialities, we have reached conclusions as to how the economy can be placed on a reasonably self-sustaining basis.

First, however, it seems appropriate to consider certain broad factors which have operated as preventatives to economic progress since Liberation. There is the inescapable conclusion that in spite of \$700,000,000 in foreign assistance, Greece during the past two years has

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merely managed to survive. There are exceptions, of course, but, in general, economic conditions have improved but little over those prevailing at the time when the Nazi forces were expelled from the country.

Bitter internal strife and the rapid rate of turnover of the Governments have created a climate of insecurity and instability that has prevented any rational planning. Since the war, there have been seven changes in the Greek Government. No government has been able to develop an effective economic policy and to inaugurate necessary controls. Those controls which have been attempted have failed as a result of various causes, among which is the lack of effective government machinery for impartial administration. Partly because of these factors, private capital instead of devoting itself to reconstruction and development has been preoccupied with schemes to hedge its risks, outside the Greek economy.

The security situation has had a direct effect upon the economy. Not only has this discouraged the desirable repatriation from abroad of sizeable amounts of private Greek capital, but the civil strife of December 1944 stimulated social and political tensions of such bitterness and intensity that the masses of the Greek people have from that time lived in a perpetual state of fear. The succeeding governments have not been successful in ameliorating this situation and hence there is lacking the national unity which is so clearly a prerequisite to a program of economic reform and recovery. Operations of organized bands of guerrillas and fear of invasion from the North have resulted in the maintenance of military and police forces numbering in the neighborhood of 150,000.

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This has been a tremendous drain upon the resources of the country and the primary cause of the budget deficit, even though the foreign exchange requirements for military expenditures have thus far been met by the British. Greece has such limited resources that she cannot maintain alone armed forces of their present size.

The psychology of certain elements in Greece has operated as a serious impediment to recovery. There has been a sense of helplessness, and in some quarters a feeling that because Greece suffered so much during the War, it is now entitled to the care of its richer Allies. There is the widely held view that external factors in Greek problems are so large that individual efforts are futile. The lack of confidence among government officials and the people in the ability of Greece to save itself financially and the belief that it must depend on aid from abroad has contributed to an appalling inertia. In this unhealthy psychological state, Greece simply has not been able to apply to its own problems the determination and resolute action essential if she is to meet the critical issues she now faces.

There exists a wide disparity in the living standards and income throughout all Greece. Profiteers, that is traders, speculators and black marketeers thrive in wealth and luxury, a problem with which no government has effectively dealt. At the same time, the masses of people live on a bare subsistence. The profiteers are relatively few in number and their aggregate wealth, if divided up among the population, would effect little improvement of general living conditions, nevertheless, their luxurious manner of living in the midst of poverty serves to embitter the masses and to underline the hardships of the poor. There is a vast amount of concealed unemployment with some 20 percent

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of the population employed by or partially dependent upon the State. The substandard levels of existence of the civil servants, indigents, pensioners and other dependents is an important contributory factor to the political and social tension which characterizes Greece today. Since Liberation no effective measures have been taken to provide useful work for the employables among this large group of the population.

Foreign observers in Greece generally agree that the past two years have failed to register a progress toward stable recovery commensurate with the foreign aid given. The time bought by UNRRA relief, by the free sale of gold and by other devices of expediency has not been utilized. The various Greek Governments, lacking in strength, have been able to accomplish little. UNRRA, zealous of its mandate to avoid intrusion in internal affairs, was not always successful in prevailing upon uncertain and hesitating officials to program more effectively the distribution of relief and reconstruction supplies. The British Economic Mission, operating under the terms of the London Agreement of January 1946, was similarly unsuccessful. The Currency Committee, operating under the authority of Greek law, has performed a useful function during the past year, but there is a basis for the conclusion that its earlier policies were of such a conservative and rigid character that reconstruction and development were actually inhibited.

Thus, two and one-half years after the Liberation, Greece finds herself on dead-center in spite of substantial foreign aid and competent foreign advice. The Mission has sought to analyze the causes of the failure of recovery processes to get underway so that the mistakes of the past can, if possible, be avoided and so that the assistance forthcoming from the United States will not simply be used to compound

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previous errors.

Internal pacification and resolution of the border disputes are the two most important needs in Greek recovery. It is obvious that the existing state of widespread violence affords an unsuitable climate for economic development.

It is hoped that the United Nations Commission which was investigating the troubles on Greece's northern borders while this Mission was studying the Greek economy will be able to recommend means of eliminating at least a part of this problem. With this settlement should also come an effort on the part of those opposing political elements in Greece interested in the maintenance of Greek independence to compose their differences and work for the common benefit of the country. Until the internal political tensions are relieved, Greece's economy cannot revive.

The Mission has considered means of meeting the principal economic difficulties of the country. This involves placing on a self-sustaining basis an economy which has always been weak. Greece has a total area of approximately 50,000 square miles. Of this, less than 20 percent is arable. The standard of living for the vast majority of its 7,500,000 population has always been dangerously low even though there has been foreign borrowing. National income, measured by Western standards, has always been low - one of the lowest in all Europe. Industrial development was only beginning to become a significant factor in the late 1930's, and at its peak bore to the economy only a fraction of the importance of the country's primitive agriculture.

Greece today faces a desperate economic crisis - one that she

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cannot meet alone. Even considering UNRRA goods undistributed or left in the pipeline and goods to be provided under the post-UNRRA relief program, there will be widespread suffering unless substantial foreign assistance is forthcoming. The dimensions of this current crisis can best be shown by the following facts:

- (1) The tentative estimated Greek budget, including the expanded military establishment, indicates a deficit of \$290,000,000 for 1947, or about three times the amount of currency now in circulation,
- (2) reserves of unrestricted foreign exchange by the end of 1946 were too meager to insure import of Greece's minimum needs, necessitating a severe restriction of basic imports in the absence of immediate outside assistance,
- (3) pressures on the retail price level are severe and further marked increases are indicated unless there are immediate corrective measures,
- (4) wage demands are accumulating as a result of the foregoing factors, adding the threat of wage inflation to the prospect of budget inflation.

In short, it appears that in the absence of substantial foreign assistance and the adoption by the Greek Government of strong control measures, another round of extreme inflation with all of its disastrous economic and political consequences is a certainty.

It is, therefore, apparent that there exists a need for immediate steps if inflation is to be prevented. Recovery and reconstruction in Greece cannot be based upon the present unstable economic foundations.

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While the Mission's earlier inquiries were directed towards the ascertainment of minimum relief requirements during the post-UNRRA period and in addition the development of measures whereby the Greek economy could make the maximum use of her own resources, the Mission has more recently considered the problem on the assumption that the United States Government would contribute very substantial amounts for the restoration of the economy of Greece, and that American technicians would advise the Greek Government on economic affairs. In this way it is hoped that the first steps can be taken whereby the economy of Greece could be restored to a sound level in order that the Greek State might survive as a free and independent entity devoted to democratic principles.

For the period from April 1, 1947 to July 1, 1948, it is estimated that a minimum of \$300 million outside assistance in addition to UNRRA, post-UNRRA relief, and surplus property imports will be required. This estimate represents in the judgment of the Mission the minimum aid which should be provided. When it is considered that during 1946, the total of UNRRA and British military subsidies was over \$300 million, the total amount estimated may be too conservative. However, the Mission has operated on the assumption that the Greek Government with the assurance of this amount of support will adopt and enforce economic policies which heretofore either have not been put into effect or having been proclaimed were evaded. In making wise use of this outside aid and in the development and implementation of sound economic policies, American personnel will be needed. An American Economic Mission should go to Greece.

The uncertain political and economic conditions have caused producing groups in Greece to lack faith in the strength and stability of their

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government and of their economy. The devastation wrought by the War, the civil strife of December 1944 and three successive devaluations of the drachma have obviously further destroyed confidence. Therefore, if the Government of the United States is going to assure the future of Greece, a continuing program is required. This program should not be limited in concept to a single year. It is emphasized that this program of recovery and restoration should envisage a period of about five years. It is hoped that direct American financial assistance will not be necessary after June 30, 1948, but the program should be continued in any case whether under American auspices or under the United Nations. It is impossible to forecast whether at that time the financial burden can be turned over to an international agency. The mere declaration of such intentions would do much to revive confidence and make easier the adoption of stringent measures that will be necessary to achieve the immediate stability needed for reconstruction and development.



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RECOMMENDATIONS

I

AMOUNT OF AID

GREECE WILL NEED FOREIGN FINANCIAL AID DURING THE NEXT FIVE YEARS BECAUSE OF THE DESTRUCTION OF WAR AND HER CURRENT CIRCUMSTANCES. IT IS RECOMMENDED THAT THE UNITED STATES EXTEND IMMEDIATE FINANCIAL AID TO GREECE SUFFICIENT TO MEET HER REQUIREMENTS FOR RELIEF, RECONSTRUCTION AND MILITARY PURPOSES UNTIL JUNE 30, 1948.

The Greek economy will require foreign financial assistance until the burden of the military and public security can be substantially reduced and probably until essential reconstruction has been carried out; the latter may take five years. The amount of aid required after the Greek fiscal year 1947-48 depends, one, on the extent to which foreign financial aid may be devoted to reconstruction at an early date as opposed to military expenditures and, two, on the extent to which the Greek Government marshals its own resources and makes effective use of outside aid.

For 1947-48 the largest single item of expense is the military. The current burden of the military, estimated at about \$180 million for the Greek fiscal year 1947-48, would have been far beyond the capacity of the pre-war Greek economy. With a pre-war national income estimated liberally at about \$600 million, or about \$80 per person, even the pre-war military expenditure of \$40 million exerted pressure on the relatively low standard of living. With a 1946 national income considerably less than pre-war in real terms, the cost of the military as currently estimated by the Greek Government is far beyond the capacity of the Greek economy.

The second item of importance is reconstruction. The estimated cost

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of a five-year program of selected reconstruction and development projects is about \$335 million. This program was determined on the basis of minimum requirements and does not purport to indicate the costs of complete reconstruction of public and private property in Greece,

	<u>Cost in millions of dollars</u>		
	<u>Foreign</u>	<u>Local</u>	<u>Total</u>
First year	34	42	76
Second year	35	40	75
Third year	33	39	72
Fourth year	23	32	55
Fifth year	23	34	57
Totals	148	187	335

The sum stated in the table for the first year will have to be supplemented by very large amounts for commitments to be made during this year. After the early months of engineering planning have been completed these additional moneys will have to be committed for reconstruction equipment and material and in setting up funds for the completion of projects already begun.

The pre-war economy of Greece could probably have financed internally the local costs of this program, but would undoubtedly have required foreign credits to cover the importation of equipment. At present, it is clear that for the first year (and possibly to a great extent for the second year) both the internal and external costs of reconstruction will have to be borne from abroad.

If United States aid, sufficient to meet internal and external costs of the military and of the reconstruction program through June 30, 1948, is forthcoming, two additional objectives of major and immediate importance can be achieved.

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First, since revenues of the Greek Government together with other assistance already forthcoming are adequate to meet non-military and non-reconstruction expenses, the budget will be in balance. With no increase in the note issue in prospect from a budget deficit, faith in the drachma should be substantially restored, which in turn should promote an increase in business activity, a decrease in hoarding, a tendency for prices to decline, and a reduction in wage demands. The balancing of the budget will go far to meet Greece's current economic crisis.

Second, under this program, Greece will be provided with civilian goods sufficient in quantity not only to meet minimum civilian requirements but also to meet the needs of a Greek people engaged in a military and reconstruction effort. In fact, if further serious inflation is to be avoided, it will be necessary to offset internal expenditures for the military and reconstruction with an adequate volume of consumer goods. This will be made possible because all of the American aid remaining after the outlay for military supplies and capital equipment for reconstruction will be used either for the foreign purchase of consumer goods or for the purchase of industrial and agricultural supplies which will in turn augment Greek production of consumer goods.

Under the program here described the Greek budget and balance of payments for the Greek fiscal year beginning April 1, 1947 would be roughly as follows:

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Budget^{1/}

<u>Expenditures</u>	<u>(Millions of dollars)</u>
1. Military and Public Security	181
2. Reconstruction	76
3. Purchase of Government Distributed Supplies	80
4. Other	<u>217</u>
Total	554
 <u>Receipts</u>	
1. Ordinary Taxes	150
2. Miscellaneous Receipts	7
3. Sale of UNRRA & State Distributed Supplies	115
4. Sale of Allied Surplus Proper	30
5. Eximbank Credit for Reconstruction	12
6. Direct U. S. Aid ^{2/}	
a. Post UNRRA Relief Bill	50
b. Greek-Turkey Aid Bill	<u>190</u>
Total	554

Balance of Payments

<u>Receipts</u>	
1. Exports	120
2. Net Invisibles	35
3. Allied Surplus Property Credits	35
4. Export-Import Bank Credit	12
5. UNRRA	12
6. Direct U. S. Aid	
a. Post UNRRA Relief Bill	50
b. Greek-Turkey Aid Bill	<u>190</u>
Total	454
 <u>Payments</u>	
1. Imports for Civilian Economy	320
2. Reconstruction Equipment	34
3. Supplies for Military	<u>100</u>
Total	454

1/ The dollar equivalents for budget categories shown here are only approximate, using a conversion rate of 8,000 drachma per dollar for internal expenditures.

2/ The proposed total aid to Greece is tentatively £350 million (£300 million for reconstruction and military aid under the Greek-Turkish Aid Bill and £50 million for relief under the Post-UNRRA Bill). The above figure of £240 million is for the twelve months period April 1, 1947 to April 1, 1948. At this rate another £60 million would be expended from April 1, 1948 to July 1, 1948. After the early months of engineering planning and construction organization the remainder of the funds will be used in making commitments for reconstruction equipment and material and in completing projects already begun.

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Due to the uncertainties regarding the future of Greek military expenditures, it is impracticable to predict beyond the coming year the extent of foreign aid which Greece will require. It is clear, however, that the amount of reconstruction and military aid required can be substantially reduced, if the Greek Government is prepared to mobilize the country's own resources by taking measures such as those set forth in Part II of these Recommendations. It is also clear that if these measures are to be taken, advice and aid from an American Mission along the lines stated in Part III will be necessary.

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II.

MEASURES TO BE TAKEN BY GREECE.

THE EXTENDING OF UNITED STATE AID TO GREECE SHOULD BE ACCOMPANIED BY EFFECTIVE MEASURES BY THE GREEK GOVERNMENT FOR THE UTILIZATION OF GREEK RESOURCES FOR RECOVERY OF THE COUNTRY.

A. MEASURES TO INCREASE REVENUES AND REDUCE EXPENDITURES.

1. Revenues. Ordinary revenues for the Greek fiscal year 1947-48 are estimated in real terms at 65 percent of pre-war. The Greek Government must take affirmative steps to increase its own revenues, including the following:

- (a) A study should be instituted as a long-term basis for:
 - (1) eliminating unproductive taxes and simplifying the tax structure;
 - (2) reallocating the sources of revenue between the national and local governments.
- (b) Income tax enforcement should be improved by (1) compulsory registration of all commercial enterprises and maintenance by them of prescribed accounts for income tax purposes; (2) substantial increase in penalties now imposed for tax violations, including imprisonment for falsification of income tax returns.
- (c) There should be a revision upwards on an average of at least 50 percent of present schedules of income tax assessments on professional occupations and commercial enterprises which are based on estimated ability to pay.
- (d) In considering customs and excise tax policies, measures should be taken to prevent importers from making or retaining excessive profits arising from the present discrepancy between internal and external prices.

- (e) The present restrictive community taxes on the transportation of goods should be abolished as soon as alternative sources of revenue are found.

2. Expenditures. The Greek Government expenditures for 1947-48, called for in the tentative budget estimates, are estimated in real terms at 200 percent of pre-war. While there is unquestionably some exaggeration in the estimates and considerable wastage of Government funds through inefficient administration, sizable reductions in expenditures can only be achieved by (1) a reduction of military expenditures and (2) a sufficient recovery of the economy to permit the Government to terminate distribution of supplies to the general public at a loss and subsidization of public utilities. As immediate measures designed to reduce expenditures can conserve the use of funds, however, the following steps would achieve results of some significance:

- (a) The Government audit and accounting system should be revised, particularly in the Ministry of Supply which is handling State distributed foodstuffs and other essentials including UNRRA goods.
- (b) The budget should be prepared and announced before the start of each fiscal year and should constitute a real control of Government expenditures. The control of the Minister of Finance over the use of funds appropriated to other ministries must be strengthened.
- (c) All "special funds" should be abolished and brought within the regular budget.
- (d) The pension and indigent lists should be reviewed, and reduced, and no new names should be added without the approval of the local welfare board.

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- (e) Demands for wage increases of civil servants and other persons whose salaries are directly or indirectly paid by the government should be reviewed by a Wage Board which should be established, and commitments for increased wages should not be made without the approval of the Wage Board.

B. MEASURES TO AUGMENT AND CONSERVE FOREIGN EXCHANGE.

Greece's exports have been small since liberation. Loss of central European markets, unsettled internal political and economic conditions, overvaluation of the drachma, and other factors have tended to restrict exports. On the other hand considerable amounts of foreign exchange have been wasted during the past year through importation of luxury goods, through Government sale of gold and through black market currency operations. A long range solution of Greece's foreign exchange problem will only be achieved by expansion of Greece's export trade and development of a domestic supply for some of her present import needs. The situation faced now, however, can be ameliorated by some immediate measures.

1. The exchange rate and the policy on the Government sale and purchase of gold should be reconsidered after consultation with the International Monetary Fund.

2. Efforts should be made to build new markets and to restore the pre-war European market for Greek exports; as to some commodities, notably European grades of tobacco, temporary barter arrangements should be worked out with countries whose trade does not flow through ordinary channels.

3. The embargo on export of olive oil should be lifted; exports should be licensed under a program which provides adequate protection on the local price, which brings the foreign exchange received from the sale

of oil under the control of the Government, and which returns to the Government through an export tax a substantial share of the difference between the local and foreign prices.

4. The national economy's benefits from Greek shipping should be increased by requiring that a considerable percentage of the profits of each ship be brought into the country in foreign exchange.

5. The tourist trade should be developed by the Government.

6. Incoming and outgoing mail should be subjected to financial censorship so that existing prohibitions against import and export of foreign exchange can be enforced.

7. Imports should be strictly controlled. Importation of luxury goods should be prohibited and permits and foreign exchange granted only for goods which will be of maximum benefit to the economy. Import needs on an annual basis should be determined and detailed plans for periods of at least six months should be prepared. The issuance of licenses should be scheduled accordingly.

C. MEASURES DESIGNED TO ACHIEVE GOVERNMENT ADMINISTRATIVE REFORM.

The effectiveness of the Greek Government is considerably reduced by an overexpanded, under-paid, and demoralized civil service, and by a lack of organization among and within the various ministries. These are faults which can only be remedied by long continued efforts. Such efforts should be started now.

1. The present civil service should be reduced in numbers, its pay scale should be increased, and improvement of the caliber of its personnel should be accomplished through training and selection. The United States Government should immediately accept the recent invitation of the Greek Government to send a group of specialists to study this problem and make recommendations.

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2. The reduction in the number of ministries and the rearrangement of functions recently recommended by the Committee on Reorganization of Ministries of the Greek Government should be immediately put into effect. Within the Ministries there should be a substantial increase in the amount of delegation of authority; detailed duties of ministers such as conferences with individual members of the public should be greatly reduced.

D. MEASURES DESIGNED TO BENEFIT THE ECONOMY AS A WHOLE.

1. Direct controls over the economy. American aid, which will mean a balanced budget, an increase in the supply of goods, and some alleviation of the current inflation psychosis, is the only method of combatting inflation in Greece which has any chance of success. Positive controls alone could not begin to meet the problem, given the current condition of Greece's civil service, the public attitude toward "police" controls engendered by four years of occupation, and more important still, the very size of the inflation problem in Greece. Nevertheless, for psychological reasons, and because some benefit will undoubtedly result, measures already undertaken in Greece to control price, rent and wage increases should be continued and some form of anti-hoarding measure should be added.

(a) The Government should attempt to develop a wage policy and some machinery for settling management-labor disputes. It is realized that previous efforts of the Greek Government to regulate wages have been completely unsuccessful, that present legal wage rates are dwarfed by wages actually paid and that under current conditions efforts to institute direct wage controls would probably be unavailing.

(b) The present "price controls" should be continued and improved in spite of their somewhat limited scope and value. The "cotton control" has apparently had a beneficial effect on textile prices, and retail margin limitations and fixed

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retail food prices have kept retailers from gouging the public. However, an elaborate system of price control with wide coverage has never been attempted in Greece and probably could not be put into effect successfully.

- (c) Rent control should be continued and extended to protect new tenants. Some investigation is required, however, to determine the desirability of relaxations where inflationary developments and devaluation of the drachma have caused controls to become overly burdensome on property owners.
- (d) An antihoarding campaign should be undertaken by the Government. Accompanied by the proper publicity, such a program should take the form of an inventory control program under which the Government confiscates inventories which are clearly in excess of business needs after reasonable opportunities to unload have been given.

2. Reconstruction and development of Public Works. Greece faces a reconstruction problem of immense proportions. Road and railroad bridges, railroad equipment, water systems, ports, and power stations were destroyed during the War. The Corinth canal, of major importance in Greece's economic life, was blocked by huge landslides set off by German dynamite. Lack of maintenance has seriously reduced the usefulness of remaining roads and of agricultural drainage projects. Reconstruction of many of these facilities is a prerequisite to the restoration of the Greek economy. This reconstruction, however, must be accomplished pursuant to a master plan which makes due allowance for funds available and the absorptive capacity of the Greek economy.

(a) A planning board composed of economists and engineers and charged with the responsibility of working out a program for reconstruction of public works and public utilities should be established immediately by the Government. A reconstruction program should be prepared which selects for immediate attention the reconstruction of those facilities which will contribute most to the rapid restoration of the general economy. Where development projects will contribute more, they should be given preference. To illustrate the kind of projects which should receive top priority, the following list is offered:

- (1) Permanent reconstruction of important sections of roads in all parts of the country selected on the basis of traffic, population and availability of other transportation.
- (2) Restoration of bridges and tunnels on the Athens-Salonika, Salonika-Chevgheli and Plati-Edhessa railroad lines.
- (3) Supply of motive power and rolling stock for the present needs of the railroads.
- (4) Necessary replacement of rails and ties on restored railroad lines.
- (5) Restoration of essential facilities at the ports of Piraeus, Salonika and Volos in the order named.
- (6) Restoration of the Corinth Canal, including high level bridge or bridges for road and railroad service.

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(7) Restoration of flood control, drainage and irrigation works in the Salonika, Serres and Drama plains.

(b) Efforts should be made to induce foreign capital to undertake on a concession basis or otherwise projects which are self-liquidating in character.

3. Industry. Greek industry, always a relatively small factor in the economy of the country, was substantially damaged by War and subsequent internal strife. Progress toward recovery has been slow due to insecurity, lack of credit, shortage of motive power, inability to obtain spare parts for foreign machinery, inadequacy of transportation, and high costs of production. Several of these deterrents would be corrected if the recommendations of the Mission were carried out. But recovery only to the pre-war level of industrial activity would be inadequate if Greece is to become reasonably self sufficient; limitations upon agricultural development make industrial expansion essential.

- (a) The present high costs of production should be reduced by
- (1) correction of the abuses of Government granted monopolies and subsidies;
 - (2) abandonment of Government policies necessitating retention of unnecessary employees,
 - and (3) implementation of other recommendations contained herein affecting the cost of production.
- (b) Preference in granting import licenses should be given
- (1) to raw materials over finished goods which economically can be produced in the country,
 - and (2) to raw materials for the production of goods to be sold at low prices.
- (c) Credit to industries for current operations and approved

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new industries should be granted where the need is clearly demonstrated; all industries granted credit should be closely observed to ensure proper use of the credit.

- (d) An industrial development program utilizing local resources and making Greece viable should be formulated. Mining, lignite extraction, metallurgical and agricultural processing industries particularly should be explored. Plants and equipment which may be acquired as war reparations from Germany or Italy should be used to the maximum.

4. Agriculture and Fishing. Agriculture in Greece is nearer to the pre-war level of production than any other segment of the Greek economy. Much of the destroyed draft power has already been restored, and the small scale and even primitive nature of Greek agriculture have enabled rehabilitation by the exertion of individual effort. Fishing has been handicapped by lack of replacements for war destroyed boats as well as by its traditional methods.

A distinguished group in 1946 studied the agricultural problems of Greece for the Food and Agriculture Organization of the United Nations. Their report advocates as ways of raising the contribution of agriculture to the economy of the country (1) the greater utilization of water through irrigation and drainage, (2) the shift of land from extensive to intensive crops, and (3) the educating of the farmers in modern methods of production.

Apart from those long range measures, which can be initiated, there are immediate steps which can be taken for increased production and improved use of the resulting products.

- (a) A Government program for the collection of the 1947 grain

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crop should be initiated to insure proper use of bread grains; imported grains should not be distributed in areas of surplus production until after the exhaustion of the indigenous supplies.

- (b) Facilities should be developed for production within Greece of all the country's seed requirements.
- (c) Credit at low interest rates and in adequate amounts should be made available to farmers and agricultural processors; this should be done through cooperatives where feasible.
- (d) Export of agricultural commodities should be developed through standardization of quality and grading of products, improvement in processing and packing, and encouragement of the growing of citrus fruits, table grapes, early vegetables and other products which can be shipped to European ports in refrigerator ships.
- (e) The fishing fleet should be increased to permit a full exploitation of the resources available.

III

ADMINISTRATION OF THE PROGRAM

THE GREEK GOVERNMENT WILL NEED THE ASSISTANCE OF EXPERIENCED AMERICAN ADMINISTRATORS, ECONOMISTS AND TECHNICIANS TO INSURE THAT AMERICAN AID AND GREECE'S OWN RESOURCES ARE USED EFFECTIVELY IN CREATING A STABLE, SELF-SUSTAINING ECONOMY. AN AMERICAN RECOVERY MISSION SHOULD BE SENT TO GREECE.

The major problem in the establishment of a Mission is the extent of its powers. The Mission must be able to assure efficient use of American aid, but it must also conform to overall purposes of United States policy by operating in connection with Greek problems in a manner acceptable to the Greek Government.

One means of meeting this problem would be to have in addition to an advisory mission representing the United States a number of American and other foreign technicians employed as individuals by the Greek Government in key government posts. The advisory mission would aid in the formulation of policy and advise on the administration of these policies, while the individuals employed by the Greek Government, such as the foreign members of the Currency Committee and the Foreign Trade Administrator, would participate in day-to-day operations.

A. FOREIGN EXECUTIVES IN THE GREEK GOVERNMENT.

Under this plan the Greek Government would employ a number of expert foreigners as individuals in key executive positions. These men would be selected with the advice of the Mission on the basis of ability and character. They should assist in assuring the effective execution of the economic policies in the day-to-day operations of the Government. Conditions in Greece are such that it would be difficult for the Greek personnel, unless backed by foreign personnel in the Greek Government, to

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carry out many of the measures adopted, since they would at times be placed under almost intolerable local pressures. The Greek Government's employment of foreign technicians on the Currency Committee provides a successful precedent.

1. The Currency Committee. The Currency Committee should be continued with its present composition of the Ministers of Coordination and Finance, the Governor of the Bank of Greece, one American expert and one British expert. Its functions should be modified to fit in with those of the American Recovery Mission and its staff enlarged as necessary. In addition to its present power to control the expansion of the note issue, the Committee should be authorized to scrutinize all expenditures and to disapprove those not in conformity with the budget. It should also be empowered to prescribe such regulations for all banks and lending institutions as it may deem necessary to control speculation and to direct investment.

2. The Foreign Trade Administration. A Foreign Trade Administration headed by a foreign technician in the employ of the Greek Government should be established. The planning and administration of the program of imports and exports, including licensing, should be centralized under the Administrator. In addition, he would also head the State organization responsible for distribution within the country of all government supplies.

B. THE AMERICAN RECOVERY MISSION.

The Americans to whom this task is entrusted must be men of character, ability, and tact, since to an extent the success of their efforts will depend upon the kind of relationship they have with one another, with Greek officials, and with the Greek public.

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Initially the Mission should be of modest size consisting of no more than 50 people headed by a single Chief. Additions should be made only as the need is demonstrated. A top staff of specialists experienced in practical economics, finance, government administration, engineering, industry and agriculture would be required. They should be assisted by accountants, research assistants and Greek speaking observers; this is particularly necessary in Greece because of the absence of statistics and information upon which policies can be formulated. Clerical and translating personnel will also be required.

It is important that the Mission not be large. The caliber of the personnel is an all-important factor and the number of highly qualified persons available for prolonged service in Greece is limited. The Greek public, whatever its initial reaction, would probably not take kindly to an overly large group of Americans, and particularly so if competence had been sacrificed to numbers.

It is recognized that a small Mission cannot itself accomplish all the planning, advising and observation called for in this program. The Mission should be assisted by groups of experts sent to Greece for limited periods for specific jobs as temporary members of the Mission. For example, studies must be made of the civil service and tax structure in preparation for the reorganization of each. Results from augmenting the staff for special detailed studies will be much more satisfactory than would be results from an equivalent number of men on the permanent staff of the Mission. Such groups of experts will be able to confine their investigations to narrow fields, leaving the implementation of their plans to the Mission's permanent staff. The Mission will have other impartial foreign assistance. As previously noted, foreign technicians will be employed by the Greek

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Government in key posts. Foreign engineering and contracting firms will be brought to Greece to undertake the extensive reconstruction which is planned. Assistance of specialists will also be required to instruct the Greek civil service in modern administrative techniques.

The American Recovery Mission should be able through various ways to make sure that the most effective use is being made of American aid. It should have the power as a last resort to stop or curtail financial aid, not only in general but in the case of any particular project or activity, should it become apparent that the conditions on which the aid was granted were not being lived up to. In addition, it should be required to publish quarterly reports on the progress of Greek recovery for the benefit of the people and the Government of the United States, of the people and Government of Greece, and of the United Nations and its specialized agencies, and interim reports should be made whenever the Mission deems a problem's urgency to necessitate immediate explanation of the facts.

Supervision of the use of the funds extended by the United States to Greece should be delegated to the Mission, and disbursements should be made by it in accordance with legislation by Congress, with policy established by the President or the Secretary of State and with the Agreement on this matter between the United States Government and the Greek Government.

The obvious need of the Greek Government for American assistance in making the most effective use of funds furnished by the United States Government logically leads to the necessity of American assistance in all matters relating to Greek Government finance since even if funds from the United States and Greece were not commingled, as they inevitably will be

in certain instances, the results of ineffective use of Greek funds per se would be as detrimental to the American program as if United States funds were themselves not properly used. The Mission should participate in the development of revenue and expenditure policies; its approval of the budget should be required before it became effective; and it should aid in assuring conformance to the budget. It should aid in policy matters but should not be expected to scrutinize every proposed expenditure by the Greek Government. This latter responsibility should be assumed by the Currency Committee.

In addition to assuring the most effective use of American financial aid the Mission should assist the Greeks in planning and execution of reconstruction projects, improvement of public administration, control of imports and the development of exports, control of foreign exchange, promotion of industrial and agricultural recovery, control of wages and prices, and programming the sale or other disposition of Government purchased supplies. Members of the Mission should sit with the Reconstruction Board and the proposed Industrial Development Agency, and their consent should be obtained before projects are initiated.

In order to be effective the Mission should concern itself with all expenditures made outside of Greece with American funds and necessarily, with Greek funds. Purchases abroad should be made in four ways; by the United States Government, by the Greek Government, by American contracting firms and by private Greek importers. Civilian purchases by the Greek Government in the United States should in general be made through the procurement facilities of the United States Treasury Department, or in case of foodstuffs, of the Department of Agriculture, and purchases

in the United States by importing and engineering firms should all be reviewed by the office in the Department of State supervising this program.

The Mission should assist in the planning and programing of imports. The import program prepared under the direction of the Foreign Trade Administrator would become effective only after approval by the Mission; individual applications for import licenses will be scrutinized by an Import Licensing Committee including representatives of the Foreign Trade Administrator, and on which a representative of the Mission will sit.

The Mission should be the sole United States agency in Greece supervising the various programs of American aid. Civilian supplies, reconstruction and military aid under the Greek program, relief aid under the post-UNRRA program, surplus property and Export-Import Bank credits should all be subject to the Mission's guidance. The Mission should also give advice with regard to the control of other imports by the Greek Government and private individuals.

C. RELATIONS OF THE MISSION.

The relations of the Mission with the United States Government in Washington should be through a single official in the Department of State. This official with a suitable staff should transmit policy to the Mission, review all expenditures made in the United States, coordinate all United States Government authorities extending aid to Greece and give general assistance to the Mission in the United States. While basic Mission policy would, of course, be made in Washington, the Mission should be an autonomous operating unit with as broad powers as are consistent with Congressional legislation. It should not be a mere field agent for a main office

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in Washington. It should have complete authority to advise the Greek Government, disburse funds, program supplies and make contracts for reconstruction.

Coordination between the Mission and the American, Greek and British military authorities presents a problem, because such a large part of the foreign aid and internal revenue being supervised by the Mission would go to the military. Relations with the British and Greek armed forces should be through the military section of the Mission. The head of the section should be one of the principal advisors of the Chief of the Mission, so that military and civilian activities can be fully coordinated. Similarly in the United States the military and civilian programs should be coordinated through the officer of the Department of State in charge of the program with the assistance of representatives of the War and Navy Departments.

The Mission should operate as an entity separate from the American Embassy. The two will naturally have to work in close cooperation; the Mission should keep the Embassy fully informed of the general nature of its work, and on all matters of importance the Embassy should be consulted before action is taken. It would not be desirable to give the Embassy any responsibility for the Mission's work since the Ambassador should be in a position to counsel the Mission and to report objectively concerning it to the United States Government.

Appropriate means should be devised for keeping the United Nations and specialized and associated agencies informed of the operation of the Mission.



CHAPTER I
PUBLIC FINANCE

General Comments and Conclusions.

Greek expenditures for the fiscal year beginning April 1, 1947, are tentatively estimated at approximately 200 percent in real terms of 1938-39 expenditures, while tax revenues are estimated at 65 percent of 1938-39 (see Tables I, II, III, and IV). Apart from the military, which constitutes 32 percent of the estimated total outlay, the budget reflects the extent to which the entire economy is directly dependent on the Government, notably for the distribution of foodstuffs, for relief to one million indigents, for operation of public utilities, and for general reconstruction. Furthermore, as noted elsewhere in this Report, the revival and maintenance of agricultural and industrial production is currently dependent to a great extent upon government credits made available through the central bank, the Bank of Greece.

Restoration of a sound fiscal position will entail assuring not only that American aid is used wisely but also that Greek funds from whatever source are not dissipated. In facing the general problem of restoration the following considerations will be of prime importance:

Fiscal Controls: The accounting methods of the Ministry of Finance are antiquated and there is frequently a time-lag of several months before expenditures and revenues are allocated to the proper budget categories. While strict adherence to the budget is nominally required of the Ministries, the control by the Ministry of Finance of expenditures by the several ministries and agencies is weak. If the budget is to be

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made an effective instrument of fiscal control, it will be necessary to increase the administrative efficiency of the Ministry of Finance and to revise accounting procedures throughout the Government. Of first importance, in this connection, is the institution of proper accounting controls for the handling of State-distributed supplies. During the past two years, neither proper inventory controls nor cost accounting controls were maintained by the Government for UNRRA and other supplies; if steps are not taken immediately to improve the procedures for handling supplies, this operation of the Government may result in a serious deficit in the budget for 1947-48.

Another required step in strengthening control of expenditures is the abolition of the so-called "special funds". These should be brought within the appropriate national and local budgets. The American Economic Mission did not make a detailed study of the number and character of all such funds, but there are known to exist a sizable number which are fed from special duties, fees, and other sources, and which do not appear in the regular budgets. Some of these funds are controlled by individual ministries and some by public and quasi-public agencies such as port authorities. While the sums involved are probably not great, the existence of these "special funds" is an invitation to misuse of public money.

Expenditures: The most important single item in the budget for 1947-48 is the cost of the military and public security. This cost is estimated at 200 percent in real terms of that for 1938-39, which was larger than the economy could afford and constituted 31 percent of the total expenditures. A burden of this magnitude is hopelessly beyond the capacity of the Greek Government to bear over the longer term. Therefore, it is imperative that plans be laid now to reduce, drastically the cost

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of the military as soon as the immediate security crisis is over. Failure to do this is almost certain to lead to another inflation once the contemplated aid program is finished and would preclude the Government from financing even the internal expenditures for the completion of the five-year program of reconstruction and development.

The Greek Government will probably not be able to finance more than 40 to 50 percent of the current level of expenditures, including military, even after a measure of recovery has been achieved. It will be necessary, therefore, to plan the gradual reduction of expenditures to less than half their present level to coincide with the end of foreign aid. This should be possible but it will require that the Greek Government begin now to plan elimination of subsidies to public utilities for general operating expenses, termination of extraordinary relief expenditures, and withdrawal from the business of distribution of essential supplies to the general public. It may be possible for the Greek Government to terminate most of these functions by the end of the current fiscal year, and in any case they should be terminated by July 1948.

It will be noted from Table III, which gives a rough breakdown of estimated expenditures for 1947-48 as compared to 1933-39, that ordinary expenditures (exclusive of military and public security) for the current years are not much out of line with those of pre-war and constitute only 29 percent of total expenditures, while extraordinary expenditures (also exclusive of military), of which reconstruction and the purchase of State-distributed supplies are the most important, constitute about 40 percent of total expenditures. On the assumptions that these extraordinary expenditures of the Government other than for reconstruction can

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be virtually eliminated by the end of the fiscal year 1947-48, or in any case not later than July, 1948, and that foreign credits can be made available to finance the purchases of equipment required for the continuation of reconstruction, it should be possible to reduce the current non-military expenditures of the Government to within 35 percent of the 1947-48 budget. The military is the real problem in reducing expenditures to a figure which Greece might reasonably be expected to bear.

Tax Structure and Revenues: The rebuilding of the Greek tax structure and the restoration of revenues to the pre-war level will be an exceedingly difficult task. Estimates of ordinary revenues for 1947-48, while double those of 1946-47, are only about 65 percent of 1938-39 (Table IV).

The primary problem is one of increasing the efficiency of tax administration rather than one of finding new sources of revenue or adjusting tax rates, the principal exception being the need to adjust import duties. In theory, the tax system taps directly or indirectly most sources of revenue and is reasonably progressive; in fact the Government has been deriving its tax revenue principally from a few taxes on articles of general consumption and has collected little or nothing from income taxes or other taxes levied on persons with the greatest ability to pay. It would be surprising if the yield from the income tax in 1946-47 was over 10 percent of what it would have been if enforcement were effective.

However, given the problems of developing direct taxation as the primary source of revenue, it will probably be necessary for the present and in the indefinite future for the Government to continue to depend principally on indirect taxes, notably import duties and taxes on articles

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of general consumption. It should be possible to broaden the base of indirect taxation by developing a general sales tax, although efforts in the past in this direction have not been successful.

In the field of direct taxation, the most promising possibility would appear to lie in developing land and real estate taxes, primarily as a source of revenue for local governments.

For the longer term, there is a crying need to simplify the tax structure and eliminate unproductive taxes and those unduly restrictive on business activity; dues levied by the local governments on the movement of goods are an outstanding example of the latter. At present the national Government is levying some 45 taxes, most of which yield very little and many of which probably do not pay the cost of assessment and collection. While a study of the entire tax structure, including allocation of the sources of revenue between the national and local governments, needs to be undertaken at once as a basis for long-run reform, experimentation in simplification of the tax structure will probably have to be postponed for the present. Effort will have to be concentrated on strengthening tax enforcement and exploring methods of augmenting revenues from present sources.

Budget Estimates 1947-48

The tentative estimates of expenditures and revenues for 1947-48 (Tables I and II) are based on preliminary budget estimates of the Ministry of Finance with the following exceptions: (1) the estimated external cost of the military was reduced by one-third on the basis of British data as to the cost of the subsidy to the Greek Army; (2) reconstruction expenditures were adjusted to the first year of our proposed

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five-year program; (3) estimated tax revenues were increased by 32 percent and extraordinary receipts from the sale of surplus property were increased by 36 percent over budget estimates. The preliminary estimates of the Ministry of Finance were made hurriedly in March and are now in process of revision. The Ministry's estimates together with the revisions indicated in the attached tables must be considered as preliminary and will have to be adjusted after detailed study by the American Recovery Mission in cooperation with the Ministry of Finance.

The Ministry's estimates of expenditures are undoubtedly liberal in certain instances and savings in a number of categories should be possible when the budget has been worked out in detail. The Ministry's estimates of revenues, even with the additions shown in Table II, are probably conservative, although measures to augment revenues will probably have to come from the American Recovery Mission rather than from the Government. It should be noted that the Ministry's estimates for both revenues and expenditures were meaningless unless the deficit was made up from abroad, inasmuch as any attempt to cover the deficit by the printing press would have resulted in hyper-inflation almost immediately.

In appraising expenditures and the data available on the experience of 1946-47 is of limited value. It will be noted from Table V, which gives the Ministry of Finance's estimates of expenditures for 1946-47 that the budget for 1947-48 appears to provide for a 100% increase in expenditures. This increase, however, is apparent rather than real. The official figures for 1946-47 show only the cash outlays of the Government and do not indicate the extent to which the requirements of the military were met by supplies provided by the British and the

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extent to which relief, rehabilitation, reconstruction and other obligations of the Government were met directly with UNRRA surplus and supplies provided under foreign credits, entirely apart from those cash expenditures financed in part through the sale of a portion of the supplies received under foreign aid. If the budget had been properly established to show the use of supplies provided under foreign aid and the value of the supplies costed to budget categories, the total expenditure for 1946-47 would be in excess of those indicated for 1947-48 (Table I) as is evidenced by the value of supplies received during the period (Table V).

Expenditures and State Enterprises
1947-48

The following is an analysis of estimated expenditures for 1947-48 by principal categories and of expenditures and revenues of state enterprises:

Salaries and Wages (exclusive of military): The salary element in the estimated total expenditures for 1947-48 is approximately 10 percent or 437 billion drachma. As compared with 1946-47, the wage bill shows an increase of about 60 percent which is primarily due to the blanket increase of 100,000 drachmae per person per month granted in February, 1947; however, this comparison is not entirely justified inasmuch as during 1946 government employees received payments in kind from UNRRA supplies which do not appear in the budget. As compared with pre-war, the wage bill shows a real increase of about 44 percent as against an increase in the number of employees of about 65 percent, the pre-war number of employees being about 55,000 as compared with about 90,000 at present.

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Even with the February increase, the salaries of Greek civil servants are low compared to pre-war and to wage rates in private industry. As discussed more fully in the chapter on Government Administration, savings in the wage bill will have to come from reorganizing the civil service and eliminating unnecessary employees rather than from a general reduction in wage rates. While some reduction in the number of employees may possibly be made at this time, a full reduction to pre-war levels will probably have to await the termination of extraordinary government functions such as the distribution of foodstuffs.

Pensions: The pension bill for 1947-48, about 9 percent of total expenditures or 360 billion drachma, is a heavy burden on the State. The bill shows an increase from 1946-47 of about 90 percent inasmuch as blanket pension increases of 50,000 drachma per pensioner per month were granted at the time of the February wage increase. As compared with pre-war, the estimated real cost has increased by about 90 percent and the number of pensioners by about 55 percent, almost wholly due to an increase in the number of war victims. As of December, 1946, the estimated number of pensioners by principal classes was as follows:

Military	23,400
Civil	25,500
War Victims	90,600
Total	139,500

While an increase in the number of pensioners might be expected as a result of the war, both the sizable increase in the number and the more than proportionate increase in the cost indicate the need for resurveying pension schedules and lists.

Military and Public Security: The estimated expenditure of 1,350 billion drachma for the military shown in Table I, of which 650 billion



is for internal expenditures and 700 billion for supplies from abroad (\$100 million at 7,000 drachma per dollar)^{1/}, is based on tentative budget estimates for internal expenditures and on British data for external expenditures. This figure may be subject to a wide margin. It was not possible to obtain either a precise breakdown of the supplies which the British have been providing the Greek forces or of the supplies which the Greek forces will be procuring internally. Furthermore, there are inherent uncertainties in attempting to estimate the cost of any military campaign.

The tentative budget estimate of the foreign exchange cost for the military was approximately 50 percent higher than that indicated above. In making this estimate, the Ministry of Finance had only a general indication of the cost of supplies being provided by the British and also assumed that if the Greek Government were forced to procure such supplies on the open market, the cost would be substantially higher than if procured through British channels. Data from the British Embassy in Washington on the aid to the Greek military places the cost for the 15 months period ending March 31, 1947, at about \$124 million and current aid at about \$8 million per month. On the basis of this information, an allowance of \$100 million for external supplies was included in the budget estimates for 1947-48 in Table I.

Of the internal expenditures, approximately 400 billion drachma, or about 60 percent, is troop pay for an estimated number of forces as follows (British estimates):

^{1/} This rate is used for all foreign exchange items for 1947-48 on the assumption that the official exchange rate will be adjusted to approximately this figure.

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Army	115,000
Gendarmerie	32,000
Air Force	5,000
Navy	13,000
Police	7,000
Total	172,000

Distribution of State Supplies (including surplus property and UNRRA): The history of the past two years of the State handling of UNRRA and other supplies presents a very bad financial record. Until April 1946, the receipts from UNRRA supplies were not even covering the costs of distribution, and it was not until the late fall of 1946 that the prices of State supplies sold on ration were adjusted upward to permit the Government to approach breaking even. Since no adequate accounts were kept of these operations, it is impossible to determine the extent of the subsidy to various elements of the population through the distribution of these supplies.

At the present time, the Government is selling in the principal urban areas a daily ration of about 750 calories per person, consisting principally of bread with very small amounts of sugar, flour, sausage and tea at prices averaging less than 50 percent of current internal free market prices. The Government is also disposing of the remaining stocks of UNRRA foodstuffs and other supplies, as well as disposing of United States war surplus property.

In the tentative budget estimates an allowance of 560 billion drachma (\$80 million) is made for the Government purchase of supplies for general distribution. This figure may be subject to substantial modification in either direction when the final programming of imports and handling of state supplies has been decided upon; however, adjustment of the figure, while affecting the magnitude of the budget, should

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not result in a disequilibrium of expenditures and revenues if proper pricing policies are pursued.

From the sale of State-purchased supplies and UNRRA stocks, the Government's estimate of gross receipts is 920 billion drachma and the estimate for receipts from surplus property, adjusted upward by 32 percent from the Government's estimate, is 210 billion drachma (Table II). Against these receipts is an estimated 320 billion of costs for handling, processing and distribution. The estimated proceeds from State-purchased and UNRRA supplies, after allowance for the distribution of 84 billion drachmas of supplies to indigents, would appear to permit the Government to about break even for the year in this operation.^{1/} The estimate of 210 billion drachma gross receipts from surplus property is based on the assumption that from \$25 to \$30 million of surplus property will be sold to the general public. This estimate of receipts is probably high rather than low, given the problems of bulk procurement and disposal of the conglomeration of surplus items.

It cannot be emphasized too strongly that the realization of the above budget estimates presupposes a far greater degree of efficiency on the part of the Greek administration than it has exhibited over the past two years, and will require constant supervision by the American Recovery Mission of price policies and handling and accounting procedures. Further, while it will probably be necessary for the Government to continue to distribute essentials at fixed prices to the general public for the whole of the present year to insure some degree of equity in

^{1/} A rough estimate of UNRRA stocks on hand in February, 1947, indicated a value of about \$45 million, mostly non-food items. Stocks from the 1947-48 UNRRA procurement program should about offset relief outlays.

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distribution, this function of the Government should be terminated as rapidly as economic recovery will permit.

Health and Welfare: This item of expenditure, although only about 6 percent of total expenditures or 259 billion drachma, is of particular importance because it includes the estimated expenditures for relief of the 1 million persons classed as indigents. Of this number an estimated 250,000 to 300,000 are employable and should be removed from the list as employment is increased by the reconstruction program and general recovery is stimulated by the aid program. The allocation of 84 billion drachma is not large considering the number on relief; it will not provide more than a 750 calorie daily ration per person. Any saving on this amount will be dependent on a forced reduction in the indigent list and absorption into the economy of the employables.

It will be noted from Table III that the costs of other health and welfare activities are not out of line with those of 1938-39.

Posts, Telephones, Telegraph: Prior to the war, the Government-operated system yielded a small profit, but during 1946-47 and 1947-48 will show a loss. Rates are high and the return of profitable operations will depend upon a restoration of facilities and a general recovery of the economy rather than on an adjustment of rates. A comparison of returns for 1938-39 (adjusted to the 1946-47 price level) and estimates for 1946-47 and 1947-48 are as follows (in billions of drachma):

	<u>1938-39</u>	<u>1946-47</u>	<u>1947-48</u>
Receipts	69	43	45
Expenditures	58	54	75
Deficit or Surplus	+11	-11	-30

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The increase in the estimated deficit for 1947-48 over 1946-47 is due in part to wage increases. However, some savings may be made on the budget estimates.

Government Monopolies: The Government maintains monopolies in cigarette paper, playing cards, matches, quinine, narcotics, saccharine, emery, kerosene and salt. The last three are the most important. Neither the expenditures nor revenues of the monopolies are of particular importance in the budget. Net returns in 1938-39 (adjusted to the 1946-47 price level) were 54 billion drachma as compared with estimates of net returns for 1946-47 of 12 billion and for 1947-48 of 18 billion. The estimates for 1947-48 are conservative in view of the extent of the aid program.

The three principal monopoly items - salt, matches and kerosene - are priced 140, 166 and 70 times above pre-war respectively. Some increase in the return from kerosene might be obtained by raising the price, but possibly this basic necessity of the general population should be left untouched until a greater degree of recovery has been achieved.

Coastal Transport: The operation of the coastal transport is an emergency post-war activity of the Government. Before the war, this was a field of private enterprise. Although further investigation of the problem is required before any action is taken, available evidence indicates that the Government should take steps immediately to turn this operation back to private enterprise. For 1946-47, the estimated deficit of the operation is 6 billion drachma and for 1947-48 is expected to be 11, the increase being due primarily to wage increases.

Subsidies to Public Utilities: This item of expenditure, about 60 billion drachma or 2 percent of the budget, which in the case of private

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enterprises will take the form of loans, is primarily for operating expenses of the railroads. Also included are some grants to municipalities and other legal entities for essential services. Because of war damage to utilities and the low level of economic activity, the elimination of these subsidies must await further reconstruction and recovery, although some reduction should be possible by the end of the fiscal year.

Public Works and Reconstruction: The Government's estimate for 1947-48 of 75 billion drachma for the maintenance of public works is less than 30 percent of pre-war (Table III). The pre-war figure probably included some development; nevertheless, the amount allowed for 1947-48 is small. The Chapter on Reconstruction and Development sets forth the Mission's estimates of capital expenditures for public works.

Tax Revenues 1947-48

The following is an analysis of the Greek tax structure by principal categories and the estimated revenues for 1947-48. As will be noted from Table II, the estimates in most instances are unchanged from the tentative estimates of the Ministry of Finance and are probably conservative considering the increase in tax returns for all sources which should, but not necessarily will, follow from the American aid program. Nevertheless, the estimated revenues are about double those for 1946-47 and to realize them will presuppose a marked increase in the efficiency of the tax administration.

Income and Inheritance Taxes: In theory, the Greek law provides for heavy taxation of incomes on a progressive scale. However, the returns from the income tax are probably but a fraction of what should



be expected if enforcement were effective. As a practical problem, the application of an income tax on a Western basis is confronted with almost insurmountable difficulties at the present time and, while measures can be taken to strengthen the enforcement of the income tax, progress is likely to be slow.

The primary difficulty in developing the income tax as a principal source of revenue in the short run is the lack of basic data upon which the enforcement of an income tax depends. First, there is not even a Government registry of those engaged in industry, commerce, and the professions. Second, only a few large concerns in Greece maintain accounts in the modern sense of the term and many small undertakings do not maintain books of any kind; there is no body of independent accountants upon whose appraisal of earnings of business enterprises the Government can rely. Third, few Greek business transactions are reflected in bank transfers, and hence it is impossible to check even the gross transactions of individual businesses at this source.

As immediate steps the Government should survey and classify for tax purposes all persons engaged in commerce, industry and the professions and should establish prescribed accounts to be maintained on a current basis for income tax purposes for at least the principal categories of business activity. This latter step will require considerable preparatory study and initially the classes of businesses which are required to maintain prescribed accounts will probably have to be limited in number and the form of the accounts prescribed will have to be relatively simple. Results of these and such other steps as may be taken to improve the enforcement of the income tax will likely be felt only over a period of years.

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The general structure of the Greek income tax is as follows: First, all net income, individual and corporate, is subject to taxation at flat rates under six so-called "analytical categories", namely, income from buildings, income from land, income from securities, income from commerce and manufacturing, income from salaries and wages, and income from independent professions. Historically there was a seventh category, income from agriculture, but this was abandoned in favor of taxes on specific agricultural commodities. The income under each category is taxed separately: for example, an individual receiving a net income from securities is taxed thereon at the flat rate irrespective of his income (or loss) from buildings. Second, individuals receiving a net income from all sources over and above a fixed amount are subject to a progressive "compound" or surtax. Third, businesses and professions are currently subjected to special assessments - known as the "Professional Tax" - based on presumed ability to pay, regardless of profit or loss. In theory these assessments, which are nominally fixed in terms of a multiple of the concerns' actual or computed pre-war rent, could constitute a tax on capital rather than on current net income, but in practice they are the only practical method whereby the Government is able to levy even a relatively small tax directly on the income of the business community.

The estimated returns for 1947-48 from the several categories of income tax together with inheritance, gift and lottery taxes are as follows (in billions of drachma):

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<u>Category</u>	<u>Tentative Budget Estimates</u>	<u>Additional</u>	<u>Total</u>
1. "Analytical" Tax			
a. Buildings	26.6	-	26.6
b. Land	.2	-	.2
c. Securities	.3	-	.3
d. Commerce & Manufacturing			
(1) Limited Liability Cos.	8.1	-	8.1
(2) Other	2.0	-	2.0
e. Salaries and Wages	4.5	-	4.5
f. Professions	(neg.)	-	(neg.)
2. "Compound" Tax	1.0	-	1.0
3. "Professional" Tax (on presumed ability to pay)	72.1	34.0	106.1
4. Inheritance Taxes	7.0	-	7.0
5. Tax on Gifts and Dowries	.8	-	.8
6. Tax on Lottery Profits	5.0	-	5.0
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Totals	127.6	34.0	161.6

The tax on income from buildings is currently 33 percent after an allowance of 25 percent to cover depreciation, insurance, etc., and a personal exemption of 60,000 drachmas per year. This compares with a pre-war tax rate of 16 percent after an allowance of 17 percent.

The income from buildings has been very severely restricted due to rent controls, which are the only price controls which have been generally enforced in Greece. Property owners are in many instances unable to meet maintenance costs let alone gain a net profit. During 1936, rents on shops were restricted to 20 times those of October, 1940; rents on dwellings in general were restricted to 12 times, and those on dwellings of salaried classes to 8 times. As of January, 1947, legal rentals on shops were raised to 50 times pre-war and those on dwellings in general to 25 times. Where it can be shown that the tenant has an income of five times the rental or the ability to pay, the maximum legal rentals for all categories is fixed at 90 times pre-war. These controls apply only to leases made before September 1, 1946.

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Increased returns from the tax on income from buildings will be dependent on the further lifting of rent ceilings. This issue in fairness to the property owners and in the interest of increased tax revenues should be considered at an early date. It will require reconsideration from time to time in the light of wages, the cost of living, and the fiscal position of the Government.

The present tax rate on income from leased lands is 40 percent after a general exemption of 5 percent for depreciation, etc., plus a personal allowance of 60,000 drachmas per year. The pre-war rate was 18 percent with no personal exemption. Information to judge the effectiveness of the enforcement of this tax is limited, but it is probably poor since there exists no adequate registry of land ownership. This is another point at which the Government should take steps to improve its basis for assessment and collection.

The tax rate on income from securities and intangibles is also 40 percent as against rates of 17 to 19 percent pre-war. The principal leak in this tax is probably on income from investments abroad, a defect which it will be hard to correct. The Government should at least attempt to require registration of all foreign investments held by its nationals. On domestic securities, the most practical step which could be taken to check evasion is the elimination of all bearer securities. This would permit collection of the tax at the source of payment.

The rate of taxation on commercial and industrial net income is 40 percent and is applied to undistributed profits in the case of limited liability companies. This rate is now applied to all assessed income over and above three times the amount collected under the special "Professional Tax" based on presumed ability to pay. The pre-war tax rate

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on the net profits of Greek limited liability companies was 15 percent and for all others 19 percent.

Wages and salaries are currently taxed at the rate of 1 percent after a personal exemption of 120,000 drachmas per month. Although this rate is low, income from this source, as in the case of income from other sources, is subject to the compound tax for which the exemptions are low.

The independent professions, commerce and industry are at present subject to the special "Professional Tax" and similarly are taxed at a flat rate on all assessed income over and above three times the amount paid under the special assessment. The flat rate is 20 percent.

Individual incomes from whatever source are subject to a progressive "compound" tax when total net income after allowance for payment of other taxes exceeds 5 million drachmas. The tax ranges from 3 percent on the first 1 million drachma to 65 percent on all over 95 million drachmas. (See Table VI for schedule in effect during 1946-47). At present the Ministry of Finance is planning to recommend substantial increases in the rates for 1947-48, particularly in the higher brackets. However, what this may mean in returns is an open question in view of the problems of enforcement.

The "Professional Tax" on businesses and the professions, which is expected to yield about 65 percent of all income and inheritance taxes in 1947-48, is not an income tax in the Western sense of the term, but constitutes the only feasible method of levying direct taxes on enterprises under present circumstances and will continue to be the only feasible method for an indefinite period of time. As originally instituted in the middle of 1945, the tax was levied on the entire business

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community, which for purposes of the tax was divided into six classes. The tax was fixed as a multiple ranging from 3 to 30 times of hypothetical rents of October, 1940. As now constituted, the tax is levied on an individual rather than a class basis and the multiples range from 5 to 300 times the pre-war known or computed rents of the establishments. However, the device of fixing the tax in terms of a multiple of the pre-war rent is primarily a fiction for purposes of computation and the tax is assessed on general indications of profits and ability to pay. The assessments are made by committees consisting of a member of the trade, a tax inspector and another civil servant of the Ministry of Finance.

It will be noted from our breakdown of the estimated receipts from the income tax for 1947-48, that an increase of about 50 percent over the Ministry of Finance's estimate from the "professional tax" is indicated. Even with an upward adjustment of assessments to make up this amount, the business community will, by all indications of profit margins in Greece, be bearing a relatively small fraction of the tax burden, and it may be possible to increase this estimate even further. However, as with the income tax in general, the problems of assessment and enforcement place great obstacles in the way of making this make-shift form of income tax yield substantial revenue.

The administration of the income tax is briefly as follows: Assessment and collection are separate functions. Any assessment may be appealed to special tax courts consisting of a judge, a civil servant, and a member of the public. (About 80 percent of assessments are appealed.) Appeals to higher courts are also possible, though rare in practice. The same courts also hear the Government charges of tax evasion.

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The present penalties for evasion of the income tax law are 10 percent of the tax for failure to file a return on time, 20 percent of the difference between the correct amount of tax and the amount declared in the case of incorrect returns, and 30 percent of the tax in the case of failure to make a return. Enforcement of the tax would probably be facilitated by increasing these penalties as is now being contemplated by the Ministry of Finance. A more important step would be to amend the tax law to make willful evasion of the income tax a criminal offense punishable by imprisonment. Neither step will probably make much difference in immediate returns from the income tax but they are desirable in providing a basis for improving income tax enforcement over the long run.

In addition to the income tax, the Government levies inheritance, dowry and gift taxes on the basis of progressive rates which in range are approximately those of the compound tax, varying from 3 to 65 percent depending on the blood and marital relationship of the donor to the recipient and the sum of the bequest or gift. As with the income tax, the problem is enforcement rather than rates, although the Ministry of Finance is contemplating an increase in the rates in an effort to augment revenues from this source.

Import Duties: The weakest spot in the Greek tax structure, and a weakness which can and should be remedied at once, is the present system of tariff duties. Prior to the war, customs duties were the principal individual source of revenue of the Government and in the post-war period will continue to be the principal source because of the nature of the economy.

The need for an adjustment of duties arises primarily from the fact that while the internal price level has risen by at least 145 times,

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since post war, the specific duties levied by the Government have been adjusted upward generally only by 40 times. The profit margins arising from the difference between internal and external price levels are currently in excess of 100 percent on essentials and reach fantastic heights on luxury goods. A further reason for a complete revision of customs schedules is that the present duties were drawn up not only for revenue purposes but also to foster a self-sufficient pre-war economy. The effects of tariffs on the pattern of development of Greek industry and agriculture should be reexamined; it is important that the schedule of duties be revised not only for revenue purposes but also to assure that the pattern of duties facilitates reconstruction and development in the light of present conditions.

While an adjustment of the exchange rate, which it is assumed will be about 7,000 drachma per dollar, will reduce to a degree the gap between internal and external prices, such a step is not a complete solution of the problem. It is important not only that duties be raised to increase current revenues but also that in the period immediately ahead prices be forced to adjust themselves to the pattern of duties which will have to be imposed in the longer term for revenue purposes. With American assistance to assure an adequate volume of essential imports, it should be possible to raise tariff duties to meet this requirement without inducing a general increase in the free market prices of essentials. Raising of duties will, of course, establish a higher floor on the prices of such items for the longer term than would otherwise be the case.

In calculating the returns from import duties for 1947-48, as shown in Table II, it is estimated that \$200 million of the \$320 million of imports for the civilian economy will be significant. Excluded are

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State-imported essentials for general distribution and relief and fuel for utilities which are now subsidized by the Government. Also a small allowance has been made for the private importation of capital equipment without substantial duties. On the tax base of approximately \$200 million, it is assumed that duties equivalent to about 27 percent ad valorem will be collected at the exchange rate of 7,000 drachma per dollar. This compares with duties equivalent to 28 percent ad valorem in 1938-39.

On these assumptions, total collections on imports would be about 378 billion drachmas, of which 280 billion are shown in Table II under the heading of "import duties" and 98 billion are included under the heading of "turnover tax". This latter tax is now assessed at rates of 1.5 to 6 percent on the gross turnover of domestic manufacturers and on imports. It is believed that adjusting the "turnover tax" rates to about 7 percent ad valorem on imports will give somewhat greater flexibility to the tax structure than to increase the specific duties to obtain the full amount indicated above. However, this question must be settled in the light of administrative problems.

Turnover Tax: The Ministry of Finance estimates that the turnover tax on domestic manufacturers will yield about 36 billion drachma for 1947-48. The tax rate of 6 percent is about double the pre-war rate, but the present large spread between prices at the manufacturing and retail levels would probably permit even a further increase in the tax without affecting retail prices perceptibly.

The turnover tax is in fact a manufacturer's sales tax and is favored over a general sales tax at the retail or wholesale levels by the Ministry of Finance because of the difficulties of checking gross transactions of the larger number of units. Enforcement of the tax even

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on manufacturers is at present difficult. However, it would be desirable for the Government to gather the information and develop the techniques which would permit the early institution of a general retail sales tax. Such a tax would provide a much broader base than the present turnover tax.

Tobacco Consumption Tax; Apart from customs duties, the tobacco consumption tax is the largest single source of revenue of the Government; it is estimated at about 19 percent of total ordinary receipts for 1947-48 or 228 billion drachma. The fact that the tobacco consumption tax yields such a high percentage of returns is more of an indication of the inequities of the tax system and the inefficiencies of the tax administration than of the importance which this tax should assume in a well-balanced system.

The present tobacco tax ranges from about 64 percent of the selling price of the common qualities of cigarettes to about 71 percent for luxury cigarettes. It is doubtful if revenues could be increased by further increases in these rates.

Tobacco Production Tax: This tax is the only one of a number of ordinary taxes levied on agricultural produce which individually yields a significant revenue. Among the others are taxes on the production of olive oil, olives, raisins and currants. The tax is paid by the grower and is collected at the time of sale. The rate is 18.8 percent on the sale value of the tobacco, as compared with a pre-war rate of 17.8 percent; the expected yield for 1947-48 is 25 billion drachma.

Stamp Dues: Stamp dues are collected for both civil and commercial documents. Fixed dues range from 180 to 100,000 drachmas, depending on the type of document, and proportionate dues based on the values of

documents range from 1 to 3 percent for civil and from 5 to 10 percent for commercial documents.

The fees are high, probably too high in some instances, and there is probably considerable evasion on commercial documents. An increase of returns over the 73 billion drachma estimated for 1947-48 will depend on an improvement of administration.

Entertainment Taxes: Entertainment taxes are levied on public shows, cinemas, luxury bars and restaurants, tourist hotels and establishments of games of skill and chance. Tax rates are high and probably little further revenue can be expected from this source. It will be noted from Table IV that the anticipated return of 42 billion drachma for 1947-48 is more than double the return from similar taxes in 1938-39.

Transportation Dues: The tax on passenger and freight tickets for railways and trams is 20 percent and for ships and planes is 15 percent (the Hellenic Electric System rate is fixed at 5 percent by agreement). The estimated revenue for 1947-48 is 15 billion drachma as compared with 24 billion drachma in 1938-39 (adjusted). Rates are higher than pre-war and further returns will depend on a restoration of facilities and the general recovery of the economy.

Alcohol Consumption Taxes: The anticipated yield from this source for 1947-48 is 35 billion drachma compared with 58 billion in 1938-39 (adjusted). In spite of lower consumption in some categories, consideration should be given to adjusting rates in an effort to bring the yield closer to the pre-war level.

Luxury Articles Taxes: The pre-war yield from taxes on luxury articles was negligible; rates of 10 percent were charged on both imported

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items and on domestic manufacturers. Current rates range from 30 to 60 percent on imported luxury articles and from 10 to 100 percent on domestically produced articles. If the importation of luxury items is virtually eliminated in 1947-48, as is recommended to conserve foreign exchange, the estimate for 1947-48 of 12 billion drachma may be too high.

Export Tax on Olive Oil: At present there exists no export duty on olive oil and its exportation is prohibited. In planning the resumption of exports of olive oil under license, it is proposed as a transition measure to place a duty on the export of olive oil, which may be adjusted downward at the discretion of the Ministry of Finance in consultation with the proposed Foreign Trade Administration. This tax will (a) lessen the tendency of the price to rise sharply as the sales begin abroad where prices exceed the domestic price by over 100 percent and (b) assure the Government a reasonable share of the profit arising from the difference in domestic and foreign prices.

The application of the tax must be flexible in order to insure that as the domestic price rises and the foreign price drops, as may occur over the coming year, the tax does not destroy the incentive to export. Therefore, the tax rate, whether fixed on a specific or ad valorem basis, must be susceptible of continuous adjustment.

The estimate of 50 billion drachmas as the yield from the tax is based on an export figure of 25,000 tons at a tax rate of about 2,000,000 drachmas per ton.

Finance of Local Governments

Apart from the national Government, the only tax jurisdictions in Greece are those of the municipalities and communes. The municipalities number 156 and the communes 5,650. The degree of autonomy exercised by

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the local governments in tax matters is limited, and in general local finances are subject to supervision by the national Government.

The local governments undertake a wide range of functions, including public works, local utilities, and health and welfare activities, but here also their power is limited. Although the burden of education and the police has been borne by the national Government since 1920, the local governments are responsible for the disposition of some of the funds for these purposes.

Prior to the War, the total receipts of the local governments were equal to somewhat less than 10 percent of the national budget and amounted to 1.6 billion drachma in 1939-40, the equivalent of 232 billion drachma at the present price level. Of the total receipts, direct and indirect taxes were 60 percent; duties and fees 11 percent; State subventions 5 percent; and miscellaneous receipts 24 percent.

Of the total tax receipts, about 35 percent represented taxes collected by the national Government on behalf of the local governments in the form of additional percentages on taxes levied for national Government; duties on imports, taxes on income from buildings, and taxes on leaf tobacco were the most important. About 50 percent were derived from taxes on the movement of goods to market; and the remaining 15 percent were derived from a multiplicity of taxes of small return.

Available data on the finances of local governments since Liberation is limited and the Mission was only able to explore the problems of local finance superficially. However, all available information points to the existence of a state of chaos in local finances and the

nessity of completely rebuilding the sources of revenue of the local governments. For the year 1945-46, the latest for which information was obtainable, total receipts were about 10 percent of pre-war in real terms, or about 20 billion drachmas. About 640 communes were reported to have realized no receipts for the year. Some improvement was expected for 1946-47, but far from sufficient to permit the resumption of financing of normal activities.

The current principal source of local revenues is the archaic tax levied on the value of goods moving to market. After the present emergency, it will be desirable to abolish this tax as unduly restrictive on the movement of goods, but this will be possible only as alternative sources of revenue can be found.

In approaching the problem of rebuilding the revenue sources of the local governments, a study should be instituted of the present division of sources of revenue between the local and national governments. In this connection, one of the most promising possibilities as a source of revenue for the local governments would appear to lie in the development of the land tax. At the present time, the national Government is levying a tax on land classified under five categories. The rates are nominal and the primary purpose in instituting the tax was to gather information as a basis for developing an equitable direct tax on agricultural holdings. This tax should offer possibilities of ultimately yielding substantial revenues and its administration would probably be more effective if handled by the local governments rather than by the national Government.

TABLE I

Estimated Greek Expenditures 1947-48 ¹
 (billions of drachma)

	<u>Amount</u>	<u>Percent of total</u>
1. Pensions (including war victims)	360	9%
2. Military and Public Security		
a. Internal	650	
b. Supplies from abroad	<u>700</u>	
	1,350	32
3. Expenses of State Monopolies	22	-
4. Posts, Telephone, Telegraph	75	2
5. Health and Welfare	259	6
6. Public Works (normal)	75	2
7. Reconstruction		
a. Internal	336	
b. Equipment from abroad	<u>238</u>	
	574	14
8. Distribution UNRRA, Surplus Property, & State Supplies		
a. Administration & Processing	320	
b. Supplies from abroad	<u>560</u>	
	880	21
9. Operations Coastal Transport	41	1
10. Subsidies to Public Utilities	60	2
11. Other (administration, etc.)	<u>493</u> ²	12
Total	4,189	

¹ Based on tentative budget estimates except for the external cost of the military, which is based on British estimates, and the expenditure for reconstruction, which is based on the first year of the five year program outlined with section on reconstruction. Foreign exchange costs are calculated on an exchange rate of 7,000 drachma per dollar on the assumption that the present rate of 7,000 will be adjusted to approximately this figure.

² Included in this category are: Ministry of Finance 140; Education 120; Agriculture 24; Justice 58; Interior 13; National Economy 8; Labor 5; Press 6; Foreign Affairs 22; Other 97.

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TABLE II

ESTIMATED GREEK REVENUES 1947-48 ^{1/}
(billions of drachma)

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Taxes and Other Ordinary Revenues	Tentative Budget		Total	Percent of Total Ordinary
	Estimates	Additional		
1. Income and Inheritance Taxes	128	34	162	13
2. Import Duties	130	150	280	23
3. Turnover Tax	76	58	124	11
4. State Monopolies	50	---	50	4
5. Posts, Telephone, Telegraph	45	---	45	4
6. Tobacco Consumption Tax	228	---	228	19
7. Tobacco Production Tax	25	---	25	2
8. Stamp Dues	73	---	73	6
9. Entertainment Taxes	42	---	42	3
10. Transportation Dues	15	---	15	1
11. Alcohol Consumption Taxes	35	---	35	3
12. Luxury Articles Taxes	12	---	12	1
13. Export Duty on Olive Oil	--	50	50	4
14. Other	61	---	61	5
TOTALS	920	292	1,212	

Extraordinary Receipts	Tentative Budget		Total	Percent of Total Extraordinary
	Estimates	Additional		
1. Sale of UNRRA & State Supplies	920	--	920	31
2. Sale of Allied Surplus	154	56	210	7
3. Eximbank Credit	--	84	84	3
4. Miscellaneous Receipts	56	---	56	2
5. Direct U. S. Aid	---	1,630	1,630	57
TOTALS	1,130	1,820	2,950	

	Amount	Percent of Total
Total Tax Receipts	1,212	29
Total Extraordinary Receipts	2,950	71
Total	4,162	

^{1/} Based on tentative budget estimates. Foreign exchange items are converted at 7,000 drachma per dollar.

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TABLE III

Comparison Greek Expenditures 1938-39 (adjusted to
1946-47 price-level) and 1947-48 (estimated)¹
(billions of drachma)

<u>Ordinary (exclusive of military and Public Debt)</u>	<u>1938-39</u>	<u>Percent of total</u>	<u>1947-48</u>	<u>Percent of total</u>
1. Pensions (including war victims)	189	9	360	9
2. Expenses of State Monopolies	44	2	22	-
3. Posts, Telephone, Telegraph	58	3	75	2
4. Health and Welfare	160	8	175	4
5. Public Works (normal)	247	12	75	2
6. Taxes collected by National Govt. transferred to Local Govts.	58	3	(
7. Other (administration, etc.)	348	17	(493	12
Totals	1,104	54%	1,200	29%
<u>Extraordinary (exclusive of Military</u>				
1. Health and Welfare (relief)	---		84	2
2. Operations Coastal Transport	---		41	1
3. Subsidies to Public Utilities	---		60	2
4. Distribution UNRRA, Surplus Property, and State Supplies			880	21
a. Administration & Processing (320)---				
b. Supplies from abroad (560)---				
5. Reconstruction			574	14
a. Internal (336)---				
b. Equipment from abroad (238)---				
Totals			1,639	40%
<u>Public Debt</u>	319	15	---	
<u>Military and Public Security</u>	638	31	1,350	32
Combined Totals	2,061		4,189	
<u>Estimated Wage Element in Above</u>				
a. Military & Public Security	203	10	398	10
b. Civilian Administration	303	15	437	10
Totals	506	25	835	20

¹ Adjustment of 1938-39 expenditures is made on the basis of an estimated increase in the price-level of 145 times. The breakdown between Ordinary and Extraordinary expenditures is rough, particularly as Greek estimates are not broken down in this manner.

TABLE IV

Comparison Greek Ordinary Revenues 1938-39
(adjusted to 1946 price-level) 1946-47 and 1947-48
(estimated) /1
(billions of drachma)

	1938-39	Percent of Total	1946-47	Percent of Total	1947-48	Percent of Total
1. Income and Inheritance Taxes	230	13	61	9	162	13
2. Import Duties	536	29	69	10	280	23
3. Turnover Tax	91	5	52	8	134	11
4. State Monopolies	98	6	34	5	50	4
5. Posts, Telephone, Telegraph	69	4	43	7	45	4
6. Tobacco Consumption	310	17	194	29	228	19
7. Tobacco Production	51	3	22	3	25	2
8. Stamp Duties	126	7	50	8	73	6
9. Entertainment Taxes	16	1	22	3	42	3
10. Transportation Dues	24	1	13	2	15	1
11. Alcohol Consumption Taxes	58	3	17	3	35	3
12. Luxury Articles Taxes	---	---	13	2	12	1
13. Export Tax on Olive Oil	---	---	---	---	50	4
14. Other	225	11	71	10	61	5
Total	1,834		661		1,212	

/1 Data for 1938-39 are actual revenues adjusted for an estimated increase in the price-level of 145 times. Data for 1946-47 are December 1946 estimates of the Ministry of Finance, which are conservative. Data for 1947-48 are based on adjusted tentative budget estimates.

TABLE V

Estimated Greek Expenditures and Revenues 1946-47 ^{/1}
(billions of drachma)

<u>Expenditures</u>	<u>Amount</u>	<u>Percent of total</u>
1. Pensions	188	9 %
2. Military and Public Security	495	24
3. Expenses of State Monopolies	22	1
4. Posts, Telephone, Telegraph	54	3
5. Health and Welfare	107	5
6. Public Works (normal)	48	2
7. Reconstruction	145	7
8. Distribution of UNRRA & Purchase State Distributed Supplies	466	23
9. Operations Coastal Transport	30	2
10. Subsidies to Public Utilities	60	3
11. Taxes collected by National Govt., transferred to Local Govts.	33	2
12. Other (administration, etc.)	381	19
Total	2,029	
<u>Revenues</u>		
1. Taxes	661	45
2. Extraordinary Receipts		
a. Sale of UNRRA & State Distributed Supplies	630	43
b. Sale of Allied Surplus Property	45	3
c. Sale of Tobacco acquired by State on Liberation	70	5
d. Other	72	
Total	1,478	
Indicated deficit ^{/1}	551	

Estimated Foreign Aid 1946-47 Greek Budget ^{/2}
(billions of drachma)

1. UNRRA (estimate at current prices)	1,540
2. Eximbank Credit	91
3. Allied Surplus Property	70
4. British Aid to Greek Military	700
Total	2,401

^{/1} Estimates based on Ministry of Finance and British Economic Mission data as of December, 1946. Estimates may be subject to appreciable modification, particularly on revenue items. The Government accounts with the Bank of Greece as of February, 1947, indicated that the deficit might be as low as 400 billion drachma. However, such accounts do not reflect outstanding obligations of the Government which are usually sizable at the end of the fiscal year. If the deficit is in the range of 400 to 450 billion drachma, it will probably reflect increased revenues from the sale of UNRRA and Surplus Property, for which the accounting is slow, rather than a reduction in the above indicated expenditures.

^{/2} These estimates are based on a rate of 7,000 drachma per dollar for purposes of comparison with 1947-48 estimates. Excluded is the British currency stabilization loan of 10 million sterling.

TABLE VI

Compound Tax

Column I Income subject to tax	Column II Rate of Tax in percent on Col. I	Column III Amount of Tax on Col. I	Column IV Total Net Income	Column V Total Tax on Col. IV
1st Million	3	30,000	6,000,000	30,000
2nd "	4	40,000	7,000,000	70,000
3rd "	5	50,000	8,000,000	120,000
4th "	6	60,000	9,000,000	180,000
5 to 6 "	7	140,000	11,000,000	320,000
7 to 8 "	8	160,000	13,000,000	480,000
9 to 10 "	9	180,000	15,000,000	660,000
11 to 12 "	10	200,000	17,000,000	860,000
13 to 15 "	12	360,000	20,000,000	1,220,000
16 to 18 "	14	420,000	23,000,000	1,640,000
19 to 21 "	16	480,000	26,000,000	2,120,000
22 to 24 "	18	540,000	29,000,000	2,660,000
25 to 28 "	20	800,000	33,000,000	3,460,000
29 to 32 "	23	920,000	37,000,000	4,380,000
33 to 36 "	26	1,040,000	41,000,000	5,420,000
37 to 40 "	29	1,160,000	45,000,000	6,580,000
41 to 45 "	33	1,650,000	50,000,000	8,230,000
46 to 50 "	37	1,850,000	55,000,000	10,080,000
51 to 55 "	41	2,050,000	60,000,000	12,130,000
56 to 60 "	45	2,250,000	65,000,000	14,380,000
61 to 70 "	50	5,000,000	75,000,000	19,380,000
71 to 80 "	55	5,500,000	85,000,000	24,880,000
81 to 95 "	60	9,000,000	100,000,000	33,880,000
Over 95 "	65			

Chapter II

CURRENCY, BANKING AND CREDIT

CURRENCY

During the two and one-half years since Liberation, Greece has experienced over one year of extreme inflation which threatened to get completely out of control, and one year of relative but precarious stability during which it was possible to keep the inflationary pressures in check only with the aid of substantial foreign subsidies.

By Liberation the drachma had virtually ceased to circulate and trade was on a barter and gold basis. As of November 11, 1944 the outstanding note issue was retired at the rate of 50 billion drachmae to one, a step which reduced the note issue to one percent of pre-war and similarly wiped out bank deposits. The exchange value of the new drachma was fixed at 149,5 to the dollar as compared with a pre-war value of about 112 to the dollar. During the first few weeks of the new issue, prices were quoted in drachma at about 4 times pre-war, and although the free market rate on the dollar was below the official rate, gold in the form of sovereigns was quoted at the equivalent of about \$85 an ounce. (See Tables I and VIII)

In the first four months after the new issue, the note issue was expanded to the pre-war level, largely as a result of Government expenditures, and the price-level doubled. By the end of May 1945, although the note circulation was only twice pre-war, prices had risen to 15 times pre-war and the free market rate on the dollar was about 480 percent of the official rate. Gold was selling at the equivalent of \$510 an ounce. In June, the exchange rate was adjusted from about 150 to 500 drachma to the dollar.

Mounting Government deficits during the last half of 1945 brought

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further drastic inflation. (See Table II) By the end of the year, the price level had risen to 160 times pre-war, the free market rate on the dollar was 140 times the official rate, and gold was selling at the equivalent of \$1,500 an ounce.

In an effort to bring some semblance of stability to the drachma, as well as for the broader purpose of restoring the Greek economy, the British at the end of the year offered financial assistance to Greece and outlined a program of fiscal and monetary reform which culminated in the London Financial Agreement, of January 1946. The principal provisions of the Agreement, bearing on monetary matters were as follows:

1. A sterling currency stabilization credit of \$40 million.
2. Waiver of repayment of a sterling loan of \$184 million granted in 1940-41.
3. Establishment of a Currency Committee, consisting of three Greek members and one British and one American member, with statutory powers to control the note issue.
4. Creation of an advisory British Economic Mission.
5. An undertaking by the Greek Government to take steps to reduce the budget deficit, including increasing the sale price of UNRRA goods to augment revenues.
6. Adjustment of the drachma exchange rate.

Pursuant to the understanding reached with the British, the Greek Government took the following steps: (1) the exchange rate was adjusted from 500 to 5,000 drachma to the dollar; (2) the Greek Government reached an understanding with UNRRA regarding the sale of UNRRA supplies which permitted a marked increase in revenues, although far from sufficient to cover the budget deficit. Furthermore, the Greeks induced the British to

agree to the policy of gold sales to the public as a short-run expedient to combat inflation. This program was begun secretly in January and was announced publicly in February, 1946.

Throughout the course of 1946 the Greek price-level remained relatively stable at 145 to 155 times pre-war, and there was unquestionably some increase in confidence in the drachma. Furthermore, the price stability was achieved in spite of an increase in the note issue of 4 times. However, these facts would tend to indicate the achievement of a far greater degree of stability than the underlying factors warrant. In appraising the experience of 1946, the following considerations must be borne in mind:

1. Greece received during the year foreign subsidy in excess of \$300 million, principally UNRRA and British aid to the Greek military. (See chapter on Post War Aid to Greece.)
2. The inflationary effect of the budget deficit was offset by the net sale of \$68 million in gold and foreign exchange. (See Tables III and IV) The sale of gold and foreign exchange was made possible in part, by the British currency stabilization loan of \$40 million.
3. Non-recurring extraordinary revenues of the Government, primarily receipts from the sale of UNRRA goods, constituted about 60 percent of total revenues.
4. With the budget deficit offset by sales of gold and foreign exchange, the primary source of the increase in note issue was agricultural credits extended through the banking system. On the basis of the limited available information, it is believed that there was a relative scarcity of currency in rural areas, arising in part from increased agricultural activity, and for this reason the impact of the increased note

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issue was not felt in the principal urban markets.

5. While statistical data is inadequate to make a precise estimate of the velocity of circulation during 1946, the velocity was at least a minimum of 3 times and possibly as much as 5 times pre-war. As of the end of the year, the note circulation was 40 times and the price-level about 150 times, pre-war. Private bank deposits were about 40 percent of pre-war.

The policies which merit special comment are those on gold sales and the increased price of UNRRA goods. Whatever might be said for the gold sales policy as a short-run means of "buying time", the policy in the long run was little less than admission by the Government of inability or unwillingness to tackle the basic causes of instability. The gold which was sold added nothing to national income, reduced the available exchange for essential imports, and facilitated the flight of capital from Greece. While the retiring of some 260 billion drachma from circulation in 1946 by this method was a significant deflationary factor, the underlying inflationary pressures remained essentially the same as before the sales began.

In appraising the impact on the Greek people of the experience of inflation during and since the occupation period, it is important to bear in mind that the nation has acquired a phobia of inflation which even under favorable conditions can only be dispelled with time. This fear is conditioned probably as much by political as by purely economic considerations, particularly inasmuch as the threat of inflation comes principally from a budget put out of balance by military expenditures.

As indicative of the importance of the political factor, it should be noted that there has been very little private investment in capital



goods or real property in Greece since Liberation. This is contrary to what would be expected on purely economic grounds as such investments are usually good long-run hedges against inflation. Investment, however, has been almost exclusively in gold, black market exchange, and hoards of consumer goods which could be quickly sold for gold or exchange. The reason for this, in part at least, is that persons of means have sought assets which would enable them to escape the country with their wealth in the event of a political upheaval.

Assurance of American aid to permit balancing the budget and provide an adequate volume of imports, should go far in dispelling the present monetary phobias. It should have the effect both of reducing the velocity of circulation and inducing a more normal flow of investment. Nevertheless, after the experience of the last six years, changes in the present psychology may well be slow; and until it is clear that the whole climate of public feeling has changed, it will be necessary to exert rigorous control of the note issue and all forms of credit.

BANKING AND CREDIT

Prior to the War, commercial and other banking institutions played a relatively minor role in the Greek economy. Total capital and surplus of the central bank and principal commercial mortgage, and savings banks was less than the equivalent of \$85 million and deposits were about \$300 million. Private deposits of the principal commercial banks, exclusive of the central bank, were the equivalent of about \$135 million. The use of checks as a means of payment was relatively insignificant compared to the volume of payments made by currency and was confined almost exclusively to large commercial interests. (See Table V)

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The major classes of banking institutions were as follows:

- (1) The Bank of Greece (central bank) which had the usual functions of note issue, fiscal agent of the Government, depository of compulsory reserves of private banks, and rediscount and open-market operations. In practice, the exercise of the function of rediscounting was limited primarily to periods of crisis and open-market operations were not used as a means of influencing the money market. The central bank also engaged in commercial banking activities.
- (2) The commercial banks which confined their operations almost exclusively to short term financing of trade and commerce.
- (3) The National Mortgage Bank (and one other) engaged in real estate loans.
- (4) The Government-owned Agricultural Bank engaged in extending short, medium, and to a limited extent, long term credits to agriculture.
- (5) The Government-owned Postal Savings Bank plus minor private institutions of similar character.

Interest rates pre-war were high compared with Western Europe and America and reflected the low volume of saving and shortage of liquid capital. The rediscount rate of the Bank of Greece was 6 percent, in the late Thirties and that of commercial banks ranged from 7 to 9 percent. Interest rates on other than discount bills were even higher. Agricultural credits of the Agricultural Bank ranged from $5\frac{1}{2}$ to $8\frac{1}{2}$ percent, depending on the length and character of the loan.

As previously noted, all assets of Greek banks, apart from foreign exchange and real property, as well as all liabilities in the form of

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deposits were wiped out by the inflation. As a result, all Greek banking institutions since Liberation have been almost entirely dependent on the Central Bank as a source of funds for relending. In fact, up to the present time, the banks have been dependent on the Bank of Greece even for funds to meet pay-rolls. Such lending has, of course, necessitated an expansion of the note issue and thus has come under the jurisdiction of the Currency Committee during 1946.

The inflation experienced since Liberation has prevented almost any measure of recovery in the normal functions of the banking system and recovery is likely to be slow even with the proposed American aid. As will be noted from Table VI, the ratio of the private deposits of the principal Greek banks to the note issue was 1.6 to 1 in 1939, was up to 1 to 23 in December, 1945, and down to 1 to 8 in December, 1946. The decline in the ratio during 1946 exaggerates the degree of recovery inasmuch as these deposits represent principally loans for specific purposes made with funds of the Bank of Greece which had not been fully drawn down in the form of cash rather than a growth of deposits made possible through a return of normal conditions.

During the inflation of 1945, negligible amounts of bank credit were made available for private account. During 1946 credits in limited amounts, made possible by the expansion of the note issue, were granted for essential agricultural, commercial, and industrial purposes. As of December 31, the total amount of credits outstanding for these purposes was 640 billion drachma (about \$80 million dollars at a rate of 8,000 drachma per dollar) as compared with about 40 billion drachma at the end of January. (See Table VII)

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The interest rates currently in effect, as determined by official policy are as follows: The Central Bank lends to commercial banks at the rate of $3\frac{1}{2}$ percent for approved loans to commerce and industry and to the Agricultural Bank at 3 percent. Loans to industry and commerce are made at the fixed rate of 10 percent and to agriculture at rates of 6 to $8\frac{1}{2}$ percent, depending on the length and type of loan.

It is reliably reported that in actual practice the banks are levying charges amounting to an additional 2 percent per month for commercial and industrial loans, which makes the effective rate of interest considerably higher.

Because of the demand for bank credit for speculative purposes and the reluctance of private capital to invest in other than gold and foreign exchange, it has been necessary for the Currency Committee to maintain the most rigorous scrutiny of all bank lending. The maxima which were approved by the Currency Committee in the Fall of 1946 for various categories of bank credit are given in the attached table. However, due to the heavy demand for gold in November, the Currency Committee was forced to place a freeze on all further bank credits and the freeze has been maintained with few exceptions ever since.

The necessity of the closest control of bank lending will continue for an indefinite period and there are a number of indications, such as the reported adding of an extra 2 percent to interest charges, which suggest that the activities of the private banks should be brought under closer regulation. In this connection, it would be advisable if the Currency Committee were given the powers to require from the banks regular reporting as to assets, liabilities, and operations; in addition, the Currency Committee should be empowered to prescribe such regulations

HARRY S. TRUMAN LIBRARY

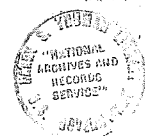
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and practices as it deemed necessary to insure effective control of the banking system.

TABLE I

Indices of Greek Note Circulation and Free Market Prices ¹



Date	Note Circulation	Free Market Prices
Base: Oct. 1940	100	100
Nov. 11, 1944 (New Note Issue) ²	1	100
Jan. 31, 1945	40	431
Feb. 28, "	71	995
Mar. 31, "	102	783
Apr. 30, "	168	792
May 31, "	205	987
June 30, "	241	355 1,544 ³
July 31, "	267	232 1,003 ³
Aug. 23, " <i>S. H. Varnavasos resigned</i>	303	240 1,035 ³
Sept. 29, "	373	258 1,114 ³
Oct. 31, " <i>Alvan Sartoris's P.M.</i>	490	448 1,953
Nov. 30, "	608	672 2,981
Dec. 31, "	804	1127 4,858
Jan. 31, 1946 <i>State of Affairs</i>	1,044	3652 16,603
Feb. 28, " <i>Tripartite Agreement</i>	1,736	3654 15,750
Mar. 31, "	2,213	3415 14,765
Apr. 30, "	2,887	14,982
May 31, "	3,092	14,655
June 30, "	3,271	14,804
July 31, "	3,526	14,269
Aug. 31, "	3,937	14,230
Sept. 30, "	4,063	14,129
Oct. 31, "	4,012	14,672
Nov. 30, "	3,716	15,645
Dec. 31, "	4,119 (prelim)	15,320

¹ Index of Note Circulation from Bank of Greece and of Free Market. Prices from UNRRA. Index of Market Prices is a geometric mean of unweighted price relatives of 20 commodities.

² Conversion of outstanding note issue at 50 billion to 1 drachma.

³ Index based on official prices.

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TABLE II

Government Receipts and Payments as Per
Accounts of Bank of Greece
(billions of drachma)



<u>Period</u>	<u>Receipts</u>	<u>Payments</u>	<u>Percentage Re- ceipts to pay- ments</u>
Nov. 11, 1944 - Mar. 31, 1945	1.9	11.5	17%
Fiscal Year Apr. 1, 1945 - Mar. 31, 1946	188.2	477.2	39%
Fiscal Year Apr. 1, 1946 - Mar. 31, 1947 (9 months)	1,151.2	1,450.7	79%

TABLE III

Sources of Increase and Decrease Drachma Note Issue
 From Nov. 11, 1944 - Dec. 31, 1946 /1
 (billions of drachma)

<u>Sources of Increase</u>	<u>Jan. 31, 1946</u>	<u>Dec. 31, 1946</u> ^{/3}
1. Credits to the State ^{/2}	96	568
2. Payments to UNRRA	3	31
3. Loans, Advances, and Other Credits	38	643
4. Net Purchases Foreign Exchange	34	---
5. Various Accounts	---	---
Total	171	1,242
<u>Sources of Decrease</u>		
1. Deposits and Current Accounts of State	12	61
2. Other Deposits and Current Accounts	25	133
3. Proceeds of Gold Sales	---	264
4. Net Sales of Foreign Exchange	---	261
5. Various Accounts	2	3
Total	39	722
Increase in Circulation	132	520

/1 Data of Bank of Greece.

/2 Payments to State minus receipts of State by Bank of Greece.
 Includes advances for purchase foreign exchange.

/3 Provisional.

TABLE IV

Sale of Sovereigns by Bank of Greece 1946
(in thousands)

<u>Month</u>	<u>Number of Sovereigns</u>	<u>Daily Average</u>
January	21.9	---
February	129.7	9.3
March	396.4	16.5
April	187.0	8.9
May	403.2	16.8
June	221.4	10.1
July	112.4	4.2
August	53.3	2.1
September	115.9	5.0
October	123.5	4.9
November	368.8	14.2
December	50.8	2.1
Total	218.4	

Dollar value sales 1946 (gold @ \$35. per ounce)\$18 million

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TABLE V

Data on Principal Greek Financial Institutions August 1939

(billions of drachma)

	Cap. & Surplus	Deposits	Other Lia- bilities	Cash & due from bks.	Govt. Debt,	Other Loans	Other secur- ities & Par- ticipations
Bank of Greece	.6	10.0	11.6 ¹	3.6	12.1	4.5	.4
National Bank	1.2	10.0	1.4	.5	3.2	7.9	.6
Other Commercial Banks	.9	7.0	3.9	.9	.4	4.3	.6
Mortgage Banks	.2	.4	2.9	---	---	3.1	.3
Agricultural Bank	1.3	2.8	1.7	.1	---	3.8	---
Savings Institutions	5.1	4.4	3.5	2.6	3.7	2.9	.1
Total	9.3	34.6	25.0	7.7	19.4	26.5	2.0

¹ Includes note issues.

TABLE VI

Bank Deposits of Principal Greek Banks ¹
 (billions of drachma)

Date	Compulsory Deposit of Public Institu- tions.	Private Deposits	Total	Ratio Private Depo- sits to note issue.
December 31, 1939	3.3	15.1	18.4	1.6:1
June 30, 1945	1.6	1.6	3.2	1:19
December 31, 1945	4.0	4.5	8.5	1:23
June 30, 1946	25.1	29.7	54.8	1:14
December 31, 1946	68.7	63.1	131.8	1:8

¹ Data from Bank of Greece. Includes National Bank of Greece, Bank of Athens, Commercial Bank of Greece, Ionian Bank, Ltd., Popular Bank, National Mortgage Bank, and Postal Savings Bank.

TABLE VII

Greek Bank Credits Exclusive of Loans to Government

(Financed directly by Bank of Greece or indirectly through other banks)

	<u>Approved Maxima</u> ^{/1} (billions of drachma)	<u>Outstanding</u> <u>Dec. 31, 1946</u>
1. Industry		38
a. Rehabilitation	15	
b. Working Capital	50	
2. Commerce		120
a. Imports	10	
b. Exports exclusive of Tobacco & Currants	20	
c. Exports of Tobacco & Currants	(as approved)	
d. Cooperatives	(as approved)	
3. Agriculture		443
a. Agricultural Bank	350	
b. Fertilizers (thru Agri. Bank or other)	70	
4. National Mortgage Bank	20	---
5. Wages of Banks' Personnel	(as approved)	31
6. Miscellaneous	(as approved)	11
	Total	643

Dollar equivalent outstanding credits (8000 drachma = \$1).....\$80.4 million

^{/1} Approved by Currency Committee.

TABLE VIII

Greek Foreign Exchange Rates and Gold Prices ^{/1}

Date	Drachmas per dollar		Free Market as percent of of- ficial rate	Free Market ^{/2} price of the Sovereign-- (in thous.drs)	Gold Price per ounce in dollars (conversions at official rate)
	Official Rate	Free Market Rate			
1938	112 ^{/3}	---	---	---	---
Nov 30, 1944	149.5	124	83%	3	\$ 85
May 30, 1945	149.5	720	482	18	510
June 30, 1945	500	544	109	13	111
Dec 31, 1945	500	6,923	1,385	180	1,530
Jan 1, 1946	5,000	5,778	116	148 ^{/4}	127
June 28, 1946	5,000	6,130	123	136	116
Dec 31, 1946	5,000	7,307	146	137	116

^{/1} Based on data of Bank of Greece.

^{/2} Gold sales by the Bank of Greece began in January 1946 and were continued throughout the year.

^{/3} Average of annual buying rates in New York.

^{/4} Average price month of January.

CHAPTER III

INTERNATIONAL, COMMERCIAL AND FINANCIAL RELATIONS

Balance of Payments

The balance of payments of Greece reflects the singular importance of foreign trade in the Greek economy. It is estimated that prior to the War the ratio of imports to national income exceeded that of Britain and may have been as high as one to five. It is a poor and undeveloped country which is self-sufficient neither in basic foodstuffs nor elementary industrial products. Its extensive imports are paid for by the export of agricultural products, and, unlike other Eastern European countries, by invisible items such as shipping receipts and emigrant remittances. Greece has been dependent on foreign borrowing to finance most of what little capital development has taken place and has also incurred heavy foreign obligations in past wars; these debts were only partially serviced during the Thirties and are not now being serviced at all.

The country has always been primarily agricultural, but due to the limited arable area and low productivity the land has afforded only a very low standard of living to the relatively heavy population. Until recently the industry of the country was insignificant and even the rapid growth since World War I has only enabled her to produce 80 percent of her domestic needs and virtually no goods for export.

In the last century as the Greek population increased and the needs could no longer be met by the traditional olives, wheat, and herds of sheep and goats, Greece turned to specialty crops, currants and raisins and then tobacco, crops whose production in Greece was especially favored by soil and climate. With specialization in these commodities, the importance of foreign trade in the Greek economy markedly increased.

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Until the First World War there was practically no investment of private Greek capital in industry and there has been but moderate investment since then. Primary factors in the lack of growth of industry have been the size and character of the local market and low volume of saving.

Other factors which limited industrial investment are likely to continue to operate in greater or less degree during the next five years and therefore are significant in an appraisal of the balance of payments. First the tradition of Greek business men led them to keep their wealth in trade. Greek merchants having handled much of the commerce of the Ottoman Empire excelled in buying and selling, but having no experience in manufacturing, did not turn naturally to industry even though there was in Greece a market for manufactured goods. Second, a sense of insecurity and a lack of faith in Greece's future militated against putting savings into local investments. Prosperous business men sought safety for their savings through investment abroad which was at once both more secure and more profitable. Third, during the long years of Turkish occupation, Greece was oriented toward the East and neither took part in nor was noticeably affected by the growth of new ideas, skills and techniques in Western Europe.

The failure of Greece to develop small industries as well as the high cost of production in existing industries are basic factors in the poverty of the country. If the living standard of the mass of the Greeks is to rise much above the pre-war level, it will be necessary for Greece to develop small industry to absorb her surplus farm population and to rely to a lesser degree on the export of specialty crops.

Greece has traditionally run an adverse trade balance, as indicated

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by the Greek balance of payments for the years 1935 to 1938 as compiled
by the League of Nations given below:

Balance of International Payments:
1935-1938 (millions of dollars)

	Credits				Debits			
	1935	1936	1937	1938	1935	1936	1937	1938
Merchandise	46.8	47.2	62	67	70.1	77	96	95
Purchase of ships							10	7
Service of public debt	2.3	2.7	2.5	2.2	4.3	8	5	6.5
Interest & dividends on foreign invest- ments in Greece					3.9	3.7	3.7	1.6
Interest & dividends on Greek invest- ments abroad	8.2	7.0	6	5.8				
Shipping income (less insurance)	5	5.8	5.5	6.2				
Emigrants remit- tances	7.4	13.8	21	17				
Tourist expenditures	4.6	4.7	5.4	4.7	2.6	2	2.5	2.5
Government receipts & expenditures	1.4	.8	1.2	1.2	2.9	11.8	5.6	6.9
Changes in gold for- eign exchange com- mercial accounts & debts	5.	5.	5.9	.9	3.2	3.5	4.2	3.9
Reduction in for- eign assets of shipowners			10	7				
Unspecified movement of funds	6.3	19	7.5	11.4				
	87.	106.	127.	123.4	87.	106.	127.	123.4

Statistics from which to compile a statement of the 1946 balance of
payments have not yet been assembled. The following broad estimates were
made by the Mission from data obtained from the Greek Government, UNRRA
and the military authorities:

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Credits:

Exports	33
Remittances	32
Shipping earnings	6
Miscellaneous	8
UNRRA	198
British Govern- ment for military supplies	<u>100</u>
	377
Deficit	-13

Debits:

Imports by UNRRA	198
Other non-military imports	<u>80</u>
Total non-military imports	278
Military supplies	<u>100</u>
Total imports	378
Miscellaneous	<u>12</u>
Total	390

This is not a true balance of payments statement as not all financial items have been included. The deficit of \$13,000,000 shown in these estimates was met through an equivalent reduction in the foreign assets of the Bank of Greece.

In 1946 through November 30th the Greek Government sold foreign exchange for confirmed letters of credit in total amount of about \$120,000,000, but many of the imports had not been brought into the country by the end of the year. This float of goods enroute or on order under letters of credit was variously estimated at the year-end to amount to \$54,000,000 to \$90,000,000, though it is not possible from available information to reconcile the higher estimate with other financial figures believed to be correct.

The balance of payments for 1947 as estimated by the Mission is as follows:

Credits:

Exports	120
Remittances	32
Shipping	10
Miscellaneous	8
Allied Surplus	
Property Credits	35
Eximbank credit	12
UNRRA	12
Direct U.S. Aid Relief Bill	50
Greek-Turkey Aid Bill	<u>190</u>
	469

Debits

Imports	
Civilian	354
Military	<u>100</u>
Total imports	454
Government expense abroad	6
Travel & miscel.	<u>9</u>
	469

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Because of their general importance, exports and imports are discussed in separate chapters of this report; the summary figures are listed above. Other items will be taken up at this point.

Remittances from emigrants to their relatives in the homeland amounted to \$17,000,000 in 1938 and are now estimated at almost double that figure. Because of the world wide sympathy for the plight of the Greeks, remittances will remain high during the next few years, but after that shrinkage must be expected; large scale emigrations ceased thirty years ago and ties grow thin with the passage of time.

At present most remittances come into the country and are converted to local currency without ever passing through banking channels so exchange is at the open market rather than the official rate. If the disparity between these two rates continues and financial censorship of mail is instituted to force all remittances to pass through banking channels, the foreign exchange thus captured by the Government can be used effectively for the Greek economy. At the present time, much of this exchange goes into luxury imports or is a vehicle for the flight of capital. It is claimed that forcing recipients of remittances to exchange dollars for drachma at the official rate will result in a radical decrease in remittances. There is no doubt some truth in this claim if the disparity in rates continues, since the senders will feel that their relatives are not receiving full value for the dollars sent. However, it is more probable that as long as the need exists in Greece the remittances will continue in substantial amounts.

Receipts from ocean shipping are an important item in the Greek balance of payments. In 1936 they amounted to some \$8 million and during 1947 should reach \$10 million. As shown in the chapter on Shipping, these

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figures are not as high as might be expected from a fleet the size of Greece's. Greece's ocean fleet is Greek in the sense that it has Greek crews and Greek owners, but most of the ships never touch at Greece, never are repaired or provisioned there and do not return their profits to the country. Only seamen's earnings and a small part of the owners' profits are returned to the country; before the War this amounted to an estimated 20 percent of the gross earnings of the merchant marine. Although Greece's shipping took heavy losses in the War, tonnage has been restored and gross earnings and net profits are far higher than they were before the War. It is unlikely that even this small percentage of gross income will be returned to Greece unless the Government takes vigorous measures as suggested in the chapter on Shipping.

Exchange arising out of money spent in Greece by tourists amounted before the war to about \$5 million annually in the balance of payments. Tourists are drawn to Greece from Western Europe and America by interest in the ancient civilization and by blood ties to the homeland. They come from the Near Eastern countries, particularly Egypt, seeking relief from the summer heat. With a little effort, this source of revenue could be developed. Better transportation, improvement of hotels, and advertising should yield substantial returns in foreign exchange and also in increased employment.

There will be some receipt from UNRRA for slip over from its relief program to be brought into Greece as imports during the year. This is estimated at \$12 million; there are still larger amounts of undistributed UNRRA goods in warehouses in the country.

Part of the Export-Import Bank loan will be entered among receipts, as equipment now under construction estimated at \$12 million should be

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delivered during the year.

A more substantial volume of goods - perhaps \$35 million - seem likely to be imported under OI LC credits. These surplus materials are of variable quality and often are not well adapted to Greek needs. However, they could be obtained more quickly by Greece than goods purchased new, and they constituted a type of immediate assistance which the United States was in a position to extend. They are in part consumer goods and in part transport and capital equipment.

The item "Government Receipts and Expenditures" in the pre-war balance of payments would show greatly increased Government expenditures in 1947-48 if all amounts spent by the Government for commodities were listed as Government expenditures. Before the War, these expenditures were:

	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
	(in millions of dollars)			
Government expenditures	2.9	11.8	5.6	6.9

The increase in these figures after 1935 reflects expenditures for military supplies and equipment as this was the period when the Greek Government under Metaxas was building up its armed forces. These amounts give an indication of the ability of the pre-war Greek economy to provide foreign exchange for government uses abroad and may be some indication of what can be expected from the post-war Greece. It is obvious, of course, that the post-war military supplies, \$100 million in the 1946 balance of payments, could not be paid for by any Greek economy.

Exports

Before the war agricultural products made up about three quarters of Greek exports, with tobacco alone accounting for one half. Of the tobacco, most of the better grades went to the United States with Germany taking the greater part of the remainder. Average exports of leading commodities for the years 1936-1938 were as follows:

	<u>Millions of dollars</u>
Tobacco	39,039
Currants	8,635
Raisins	4,066
Olive Oil	3,695
Edible olives	2,555
Figs	1,482
Minerals	2,896
Other exports	<u>19,659</u>
	82,027

During the years that preceded World War II, Germany using aggressive trading methods became increasingly important in Greek trade. Exports to countries taking the largest amounts of Greek products 1936-1938 were as follows by amount and percentage of total export.

	<u>Millions of dollars</u>				<u>Percent</u>			
	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>Average</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>Average</u>
USA	9.8	14.3	15.5	13.2	14.3	16.5	17.1	16
Germany	25	26.8	35	28.9	36.4	32.7	40.1	36.4
U.K.	4.9	9.6	8.4	7.6	12.2	9.7	6.3	9.4
Italy	1.2	5.4	4.7	3.8	1.8	6.3	5.2	4.4
Other countries				29.5				33.8

During the current fiscal year, exports can be substantial. They may total \$100 million to \$140 million if the Greek Government takes the steps necessary to reestablish this phase of the national economy. Since Liberation, the sense of insecurity and uncertainty that has pervaded

Greece has both directly and indirectly been a barrier to exports. Production of export commodities has been reduced and both farmers and merchants have preferred to hoard rather than sell their stocks. Changing currency values, scarcity of transportation and the prostrate status of Germany and other European customers have prevented the reestablishment of trade. With the prospect of substantial American aid, it should be possible to take the steps necessary to reestablish exports - an absolute essential to Greece if the country is to again become economically independent.

It is commonly recognized within Greece that the low exchange rate constitutes an important barrier to exports, but it has been felt that any change might further weaken faith in the drachma, that further inflation might follow, and that the consequences of the change in rate would be nullified. With large American financial assistance together with controls which the Greek Government is expected to impose upon the economy, it is believed that it may be possible to keep the currency stable following a change in the rate. This is a matter of conjecture but it seems necessary that the risk be taken in an effort to break the barrier.

A second obstacle to exports is the high cost of handling and transporting commodities. This cost reduces the profits received by the producer and increases the price of the goods he buys. While exports can be moved out of Greece under existing conditions, their volume and the resulting profits will depend in part on the restoration of ports, roads, and railways to more efficient operation.

The disruption of markets caused by the War is still another obstacle.

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Prior to the War, a large percentage of Greek exports went to central and eastern Europe; in 1938 Germany alone took 40 percent. Most of the countries in this part of Europe are now closed to Greece. Eventually they may be reopened, but in the meantime, new customers must be found. This may not prove possible with respect to the lower grades of tobacco, most of which went to Germany before the War. However, during the immediate future while most commodities are in short supply, it should be possible to sell, and at rather high prices, the greater part of the Greek exports.

The obstacles to substantial exports do not appear insurmountable. Other war-torn countries in Europe have overcome similar ones. The extent to which the Greek Government overcomes them largely depends on the extent to which it shakes off the lethargy which has seemed to paralyze effective action.

In estimating Greek exports for the coming year, it is assumed that (a) production of export crops in 1947 will equal if not exceed that in 1946; (b) transportation will be improved; (c) energetic steps will be taken to increase exports; (d) the handicap to export in the overvaluation of drachma will be ended by changing the exchange rate; and (e) new markets will be sought out to replace lost markets in central Europe. On these assumptions estimates for exports in the fiscal year April 1, 1947 to March 31, 1948 are as follows:

<u>Exports</u>	<u>(Millions of dollars)</u>
Tobacco	45
Olive oil	40
Edible olives	8
Currants	8.4
Sultanas	8.2
Figs	2.4
Minerals	3
Miscellaneous	5
Total	120

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It can be seen that in this tabulation, tobacco and olive oil account for about 70 percent of all Greek exports. The prospects for exports of each of these commodities are not at all clear. Their actual export will depend to a large degree on the effectiveness of the Greek Government's efforts.

The Ministry of Coordination estimates that about 31 million kilograms of tobacco valued at \$37.5 million will be available for export in the calendar year 1947. Of this, 13 million kilograms worth \$19.5 million would be from the crops prior to 1946 and 18 million kilograms valued at \$18 million would be from the 1946 crop. It seems reasonable to assume that the exports for the fiscal year April 1, 1947 to March 31, 1948 as contrasted with the calendar year will be \$45 million.

omit (Little export was carried out in the first quarter of calendar 1947 and) it seems likely that exports in the first quarter of calendar 1948 will bring the total for the fiscal year to a higher total than the calendar year by \$7.5 million. This assumes, of course, that the present interest of American buyers in Greek tobacco is translated into effective demand in the near future.

The export of olive oil is a most controversial subject. Export of this staple in the Greek diet has been prohibited lest it lead to higher prices for this commodity and a resultant widespread effect on general living costs and wages. The domestic price has remained at the low figure of about \$520 per ton (3.9 million drachma at the official rate of 5000 to 1); the price in New York in late 1946 was \$2400 per ton and more recently about \$2000 per ton. Greece has a substantial surplus of olive oil above its own requirements and obviously needs very badly the foreign exchange which could be obtained from export

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at the profits available at these prices. Substantial amounts of this large profit could, of course, be set aside for the Government.

Plans for export have been under discussion by the Government for some time, but no action has been taken. The delay is undoubtedly due, in part, to a genuine fear for the effect of exports upon the general price level, but pressure by commercial interests has also played a part. More recently the delay has been attributed to a feeling on the part of Greece that the United States aid program provides a bountiful assistance which makes the full use of Greek resources unnecessary.

Estimates of the amount of oil available for export during fiscal 1947 from the 1946 and earlier crops range from 20,000 to 30,000 tons depending on whether government ministries or olive oil merchants are doing the estimating. If the 1947 olive crop is a good one, some exports from this crop should also be available in the last quarter of fiscal 1947; this would increase exports to a figure about the 20,000 to 30,000 tons. With uncertainties, both as to the amount of oil available for export and the price at which it could be sold, no firm conclusions can be reached at this time of the value of exports during 1947 but \$40 million seems a reasonable figure.

To counteract possible price rises resulting from the export of olive oil, Greek Government officials wish to import considerable amounts of inexpensive cottonseed oil. This would be blended with olive oil and used by the Government to prevent wide advances in the price of olive oil in the city markets. This appears to be a reasonable course of action since it would reduce the danger of price advances and would also increase the amount of oil available for export.

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The figures given for the exports of dried fruits and other commodities are approximately those made by the Government. Here also there is the probability that the exports from January 1 to March 31, 1948 will be greater than those of January 1 to March 31, 1947.

The total amount of exports for the fiscal year will depend in large measure on the success of the Greek Government in reestablishing peace, in improving transportation, in accomplishing wide distribution of consumer goods and in dealing with the overvaluation of the drachma. Exports will also be dependent upon reestablishment in other European countries of conditions conducive to normal trade. Shortages in world markets make it possible that present expectations of imports will even be exceeded if normal conditions can once again be approached.

For the present, however, the Greek export trade remains stagnant, in spite of the active demands abroad. Recognizing the difficulties, but also taking cognizance of the possibilities, it is believed that Greek exports in the current fiscal year should equal or exceed the estimate of \$120 million made herein.

Imports

Before the War Greece ordinarily imported about one-third of her requirements of cereal grains and substantial amounts of meat and fish; imports of foodstuffs constituted about one-third of total imports. Coal and petroleum products were imported, as well as many of the industrial raw materials and a substantial percent of the manufactured goods.

Imports during the years 1936-1938 averaged as shown in the following table:

	<u>Millions of dollars</u>
Cereal grains	24.3
Other foodstuffs	11.7
Coal	5.8
Petroleum products	5.7
Textiles	15.5
Hides & Leather	2.6
Lumber	5.7
Iron and Steel	9.9
Machinery	8.6
Autos	1.3
Chemical & Allied Products	8.2
Miscellaneous	<u>27.7</u>
	127.

Before the war Greek imports came from a large number of countries with Germany by far the largest supplier. Germany was followed by the United Kingdom, Rumania and the United States. Greece drew small amounts of a variety of products from the United States of which machinery, petroleum products and wheat were the most important.

Imports into Greece 1936-1938 Average

	<u>Million dollars</u>	<u>Percent of total</u>
Germany	33.1	27.1
United Kingdom	16.7	13.4
Rumania	11.6	9.1
U. S. A.	7.7	6.2
Other Countries	<u>57.9</u>	<u>44.2</u>
Total	127.0	100.0

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The following is a tentative programming of imports for the fiscal year 1947-48. It was drawn up after an appraisal of estimates of the Greek Government for current requirements of essential foodstuffs, raw materials and equipment required for maintenance of output of industry and agriculture, and essential equipment for reconstruction and development. The estimate of import requirements, as noted in the Recommendations section on the Amount of Aid, was also conditioned by the fiscal position of the Government and the necessity of offsetting internal military and reconstruction expenditures with imports of consumer goods to maintain monetary stability.

While the imports of some commodities can be estimated with no more uncertainty than is inherent in most such figures, other imports will depend on outside factors and on the way the Greek economy responds to the aid supplied to Greece. Therefore the following figures for civilian imports during the fiscal year April 1, 1947 to March 31, 1948 are quite tentative.

	<u>Millions of dollars</u>
Food	120
Coal	10
Petroleum Products	13
Clothing textiles inc. raw material	21
Footwear	8.3
Transport	8.2
Lumber	8
Metals	14
Industrial raw materials	13
Industrial machinery	14
Medical supplies	7.5
Miscellaneous	23
Reconstruction imports	50
Agricultural supplies	30
	<hr/>
	348.0

The program will not provide a volume of imports in excess of that estimated for 1946-47. The estimate of \$348 million of imports in the

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fiscal year compares with an average import of \$127 million in the years 1936-38. As the unit cost of imports has probably doubled since the War, a comparison of \$348 million with \$254 million would be more realistic. Furthermore, the 1936-38 figure probably includes some imports of military material, whereas the 1947 figures do not.

The problems in effective handling of Greek imports in 1947 are greater than the figures themselves would indicate. Difficulties growing out of destroyed ports, transportation facilities and warehouses are likely to be overshadowed by those related to the programming, procurement and distribution of imports. The bulk of 1947 imports will not consist of ordinary commerce, that is merchandise purchased with Greek resources following through customary channels. They will be merchandise practically presented to a country whose foreign and domestic commerce was disrupted by war - to a country which has made but limited recovery in the two years during which UNRRA imports have sustained the economy. In 1946 uncontrolled imports through ordinary trade channels, while not large in comparison with UNRRA imports, resulted in quantities of luxury goods in the Athens stores at the same time many near necessities were scarce in Athens and virtually unobtainable outside of the capital. If American aid is to contribute effectively toward building a self-supporting economy, careful planning and supervision of imports is necessary.

Foreign Trade Administration

In order to control imports it is essential that the Greek Government give broad powers over the programming and administration of imports to a Foreign Trade Administration. The control of imports in Greece, dependent as it is on supplies from abroad, is so important that as long as Greece is receiving financial aid in large amounts from the United States the control must be shared by Greece and the American Recovery Mission. The

man selected for the post of Administrator should have a detailed knowledge of Greek needs. As an American he will have some immunity from the pressure of Greek politics. The Administrator and his staff, as employees of the Greek state, should be able to carry on the daily operation of a control system with minimum irritation to Greek businessmen.

The import program should be developed by the Foreign Trade Administration in collaboration with the Ministries of the Greek Government particularly concerned with imports, and with the assistance of the American Recovery Mission. The approval of the Mission would be required before the program would become effective. The granting of licenses for imports within the program and other details of daily operations would be handled by the staff of the Foreign Trade Administrator. In addition to its functions in relationship to imports, the Foreign Trade Administrator would have broad responsibilities for the promotion of exports and with respect to the distribution of supplies purchased by the Government.

The Greek Exchange Rate

At the present price-level in Greece, the drachma is substantially over-valued. Appraisal of the extent of overvaluation and the degree of adjustment which should be made at this time, particularly in the interest of stimulating exports, is made difficult by the lack of information on prices and costs within Greece. There is little data on internal transportation and handling costs incident to exportation, and on present and potential markets for many of Greece's agricultural products.

The stimulus to increased exports from a change in the exchange rate will probably be felt on nearly all exports except olive oil. As noted elsewhere the Greek price of olive oil is far below the world market price because of the present embargo on its export and hence an adjustment of the exchange rate is unnecessary to facilitate its export.

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An adjustment of the exchange at this time is called for primarily for the following reasons: (1) It is important that every impetus be given to Greek exports for the longer term and that Greece establish channels of marketing now while demand is great for the type of commodities which are exported. Furthermore, the prices of Greek exports are likely to suffer relative to the prices of the type of commodities imported and the present exchange rate will become progressively more difficult to maintain. (2) It is doubtful if present wage levels could be maintained over the longer term at the present exchange rate, even though wage rates have lagged considerably behind prices. It will be desirable to change the exchange rate so as to force as little wage readjustment as possible during the period of recovery.

It is recommended that consideration be given to an adjustment of the exchange rate from 5,000 to 7,000 to the dollar. On the basis of the general price-level as compared with the United States and Britain, a somewhat greater degree of devaluation would be indicated, probably about 8,000 to the dollar. However, in recommending a rate of 7,000, the following factors were taken into consideration: (1) With the adjustment of tariff duties, as recommended in the Chapter on Public Finance, a further degree of devaluation might run the risk of exerting considerable upward pressure on the prices of some imported commodities; (2) in European and Middle East markets, which may be outlets for at least part of Greece's miscellaneous agricultural output, exchange rates are in many cases out of line and this factor must be weighed in considering the immediate repercussions on the Greek market of devaluation.

In view of the uncertainties both in internal and external markets, it may be desirable to give consideration to the adoption of a flexible exchange rate as a temporary expedient rather than to change the official

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rate at this time. If this approach to the problem is adopted, the following pattern is recommended:

1. All exchange earnings would be surrendered to the Bank of Greece at the official rate.
2. Those surrendering exchange would be issued freely saleable permits which would entitle the possessor in effect to buy from the Bank of Greece at the official rate a portion of the foreign exchange which he had surrendered. The exchange purchased could be used for the importation of essentials under license. Such permits would be valid only for a limited time and would not give the possessor the right to hold exchange in his own name but only to have payment effected for licensed imports through the banking system.

While a flexible system would have certain advantages in the short run, Greece cannot hold the 5,000 rate over the longer term without severe adjustments in the price structure. It seems that a change in the official rate now when large American aid is being extended is preferable to adopting a temporary expedient to be followed by a change in the rate some time later. American aid now being extended should enable Greece to overcome uncertainty and to maintain relative price stability while the country is adjusting itself to the change.

Exchange, Import and Export Controls

The existing Greek exchange regulations provide in general for the surrender to the Bank of Greece of all exchange earnings, both from exports and invisibles. The export of domestic and foreign currency and other forms of exchange is permitted only under license from the Bank of Greece and the export of gold for private account is prohibited. Both imports and exports are subject to license control.

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In practice it appears that the exchange authorities obtain most of the exchange from lawful exports. Receipts from smuggling are, of course uncontrollable and there is also some loss of exchange through falsification of shipping and other documents. Invisible earnings, of which remittances are the most important, escape regulation to a considerable extent. Little effort is made to obtain surrender of earnings on investments abroad. The enforcement of controls on the export of exchange is weak. In fact, the prohibition of the export of capital was made virtually unenforceable by the free sale of gold by the Bank of Greece. There is also considerable outflow of exchange through the mails in the form of checks and drafts bought on the black market. To plug partially the leaks of inflowing and outflowing the Government should attempt to secure registration of the foreign assets of all nationals, and institute financial censorship of incoming and outgoing mail to capture remittances and prevent the unlawful outflow of exchange.

The controls applied to the import of goods are briefly as follows: A license issued by the Ministry of National Economy as well as a permit from the Bank of Greece pertaining to the payment of the exchange is required by the importer. The granting of licenses by the Ministry of National Economy is made pursuant to the decisions of the Import Committee, on which are represented the Bank of Greece and the Ministries of Coordination, National Economy, Finance, and Supply. The permits granted by the Bank of Greece are handled by a special Exchange Control Committee.

Payment for imports is made through the banking system on the basis of shipping and other pertinent documents direct to the exporter rather than through the importer. It has also been the practice to permit the importation of goods under license in instances where payment is made with

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funds held abroad by the importer. During most of 1946, licenses in such cases were granted freely, but currently an effort is being made to tighten the control on the use of such exchange by the Bank of Greece,

In the case of export of goods, licenses are also required from the Ministry of National Economy and from the Bank of Greece. Barter transactions as well as transactions providing for payment in exchange are under license. The permits issued by the Bank of Greece, covering collection of the proceeds of exports, designate the Greek bank to which the shipping documents are to be made and the bank thus designated assumes responsibility for receiving direct payment for the export. In certain instances, the documents are issued to the order of the exporter or foreign importer under conditions determined by the Exchange Control Committee to assure surrender of the exchange.

The granting of exchange for capital transfers, interest and dividend payments, travel expenses, remittances, and similar payments is under the direct control of the Bank of Greece. All applications for such payments are currently treated on an individual basis.

In enforcing the restrictions on the export of exchange and gold, all travelers are required to declare their assets upon entry into the country and upon exit to provide certificates showing the sale through authorized channels of any exchange disposed of in the country.

In general, the mechanism of Greek controls is reasonably adequate, though enforcement has been lax and above all the policies which have governed their application have resulted in a squandering of exchange assets. For this latter reason, we have recommended that the control of exports and imports be centralized under a foreign trade administrator.

CHAPTER IV

GOVERNMENT ADMINISTRATION

The present capacity of the Greek Government as a functioning organization must be considered in connection with any study of economic recovery in Greece and administration of American aid. Government administration must be greatly improved over that of the present if Greece's recovery is to be directed adequately and American aid is to be used effectively.

Under the parliamentary system, governments replace one another with alarming rapidity and ease. It may be that this system is not well adapted to the needs of a country in which political parties are numerous and consist primarily of personal followings of political leaders. There have been seven changes in the Greek Government since Liberation. Obviously, few of the cabinet ministers have been long enough in any post to permit them to acquire more than a speaking acquaintance with their jobs in the Government.

Prior to the War, a rapid turnover in ministers did not necessarily jeopardize in an important degree the functioning of the Government because there was in each ministry a permanent staff of trained and capable civil servants who were quite able to carry on the day-to-day operations of the ministry, and to lend a considerable degree of continuity to the operations of each ministry. The war and the occupation, however, have had a disastrous effect on the civil service. Today it is overexpanded, underpaid and demoralized. There are instances in which capable persons have retained jobs and continued to do them well, but

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these are rare. The many shifts in government have lent an air of political insecurity to all major government posts so that the disorganization within the ministries has reached alarming proportions. Furthermore, the number of ministries has been expanded as each government awarded ministerial posts to political leaders in order to obtain the support of their personal followings. As a result, the locus of responsibility is frequently difficult to determine and there is much overlapping of functioning.

Substantial government reform will, of necessity, be a slow process but the need for it is such that the project should be undertaken at once. In addition, there are immediate steps which should be taken in order to assure that the American aid program results in a maximum of benefits to the people and to the economy of Greece.

The Civil Service

The civil service in Greece consists of the administrative personnel of the ministries, the judiciary, the police and the staffs of some universities and institutions. Before the War, it amounted to 53,000 and now has risen to perhaps 80,000. The Civil Servants Mutual Assistance Fund Organization estimated 74,000 on December 31, 1945; the government budget for 1946-47 was based on a strength of 85,000. This variation illustrates the lack of accurate information on the numbers in the civil service, their pay and functions, and this lack of information in turn illustrates the condition of disorganization in the government as a whole.

During the War, civil service jobs were handed out as a form of relief and during the disorganized post-war period they have been used as political rewards. This "recruitment" without regard to educational or other necessary qualifications has resulted in both an unnecessary

increase in the rolls and a lowering of the standard of personnel. Most of the pre-war civil servants are still in their old positions, and almost all of the newly employed persons have been given only temporary appointments.

The following table submitted by the Greek Government shows the number of civil servants by departments in early 1947:

	<u>Employees</u>	<u>Servants</u>	<u>Magistrates</u>	<u>Technical</u>	<u>Temporary</u>
Parliament	142	99			
Finance	8648	964	105	127	161
Coordination	57	17			3
Foreign Affairs	107	45	1		23
Press	69	13			
Justice	4435	860	1254	14	496
Interior	806	126		2	224
Public Security					
Police	365	176			
Gendarmerie	230	82			
Fire	17	4			
Rural Security Police	842	5			
Supply	962	108		26	48
F-X	167				8256
Public Works	269	249		839	473
Reconstruction	63	11		185	159
Post, Tel., Telg.	7955	74		59	975
Transport	109	44		125	3
Education	23549	990		42	1871
National Economy	552	107		30	242
Tourism	69	11		2	36
Labor	220	46		10	32
Agriculture	607	82		1908	620
Welfare	3125	49		11	76
Hygiene	686	207		96	2068
War	241	227			2303
Navy	24	6		12	28
Air Force	150	5		48	35
Aircraft Mfg.				1311	-
Mercantile Marine	11	-			201
Coastal Navigation					
Totals	54477	4607	1360	4847	18335

The base pay of the civil servants ranges from 80,000 to 250,000 drachma per month. The table of monthly salaries below shows the comparison between pre-war and 1946. It is notable that the higher grades have

suffered relatively more than the lower ones in the decrease in dollar value of wages.

Position	Prewar pay	Postwar	Prewar Pay	Postwar
	In drachmae		In dollars	/1
Director-General	9,650	250,000	80.42	50.00
Director, 1st.class	7,475	200,000	62.30	40.00
Section Chief, 1st.class	5,980	170,000	49.83	34.00
Rappporteur	4,370	145,000	36.42	29.00
Secretary, 2nd class	3,726	125,000	30.11	25.00
Attache	2,507	110,000	20.89	22.00
Clerk, 1st. class	2,185	100,000	18.21	20.00
Usher, 1st. class	1,552	95,000	12.93	19.00
Usher, 4th. class	920	80,000	7.67	16.00

/1 With dollar at 120 drachmae (prewar), 5,000 drachmae (postwar).

In addition to the base pay, there are numerous extra emoluments which supplement the pay of all civil servants to some extent and of certain high officials to a scandalous extent. They are:

- a) Family allowances up to 25% of base pay,
- b) Longevity allowances up to 25% of base pay,
- c) Allowances for service in Northern Greece - 15% of base pay,
- d) Overtime pay (received by 25% of civil servants),
- e) Fee of 5,000 Drs for each attendance at a committee meeting,
- f) Travel and other expenses,
- g) Allowances to officers on loan to other ministries,
- h) Bonus of one month's salary at Christmas and Easter,
- i) Bonus of 100,000 Drs. per month February-March, 1947.

This hodge-podge method of payment which has grown up in answer to demands for increased wages is subject to many abuses. No one has a clear idea of how much civil servants are receiving, but it seems probable that a few receive as much as four times their base pay. The payment of

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committee fees, which are received by only the highest officials is a particularly vicious practice; it is reported that 2% of the civil servants receive 200,000 to 300,000 Drs. a month in this manner. 5,000 Drs. are collected on the spot by the officials as they make the rounds of their countless, unnecessary committee meetings. The system of overtime pay favors a few categories of officials in Athens over the great bulk of employees.

In spite of the many added emoluments, the bulk of the civil servants do not receive a living wage. The constant demand of the civil servants for higher pay, which has recently been answered by 100,000 Drs. bonus per month, constitutes a serious threat to the government budget.

The present civil service is an incredibly ineffective organization. It cannot be depended upon to carry out the most obvious functions of government, such as the collection of taxes, repair of roads and administration of economic regulations. The work in Greece which in normal times would be accomplished by the collective efforts of society - the government - is to a large extent simply not being done.

The ineffectiveness of the civil service is due to a number of factors. One of these is plain incompetence. Most of the 20,000 or 30,000 who have been hired since the beginning of the War are lacking in qualifications, and many of the older civil servants are also unequipped to perform their duties. In some cases, this incompetence could be rectified by training, but in others the persons are inherently unfit for their work. However, the incompetence of some civil servants should not be interpreted as meaning that the whole civil service is bad, for there is an intelligent, experienced and willing

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nucleus which with training and direction could efficiently carry on the work of the Government.

Low pay undermines the civil service more than any other single factor. The civil servant feels little obligation to an employer who pays less than the wages paid to laborers and seamen, and far less than can be earned in most simple businesses. Since he cannot live on his salary, the civil servant usually has an additional way of earning money; low pay decreases his efficiency in his government work and seriously jeopardizes his integrity. While most civil servants have remained on the rolls in spite of the low pay, there has been no incentive for able people to join the ranks.

The unduly short working hours of the Government - mornings only six days a week - have in themselves been a cause of inefficiency. 33 hours a week is completely incongruous with the 40 to 48 hours put in by other workers in Greece and far too short a time in which to accomplish the necessary work.

Lack of strong and clear direction from above results in inefficient use of what little ability now exists in the civil service. As pointed out above, ministers come and go at such a rapid rate that they have no time to become familiar with their organizations or to give intelligent backing to their floundering subordinates. A consequence has been that most civil servants will take no responsibility for even the smallest detail.

If Greece is to make use of its own resources in recovery, the Government must fulfill the normal functions of a government. This requires able and willing government employees in all positions from planning staffs to rural tax collectors. At present the first and most

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serious difficulty met in accomplishing any program or reform in Greece is the lack of anyone to perform the work. There is no body of intelligent people to turn to for plans or staff work; there is no honest and hard-working group which can be depended upon to enforce economic controls, collect taxes or administer a reconstruction program.

The need for reform of the civil service underlies all of the problems considered in this report. The many measures recommended herein simply cannot be carried out unless the civil service is a more effective body than it now is.

Many of the needed reforms are obvious: a minimum of 20,000 unqualified and unnecessary employees should be discharged; the method of payment should be simplified; salaries should be raised; training of workers should be initiated; political interference in the civil service should be eliminated and merit made the sole basis for selection and promotion; and hours of work should be increased.

The exact changes that should be made and the method of carrying them out cannot be determined without a complete examination of this problem. A group of American public administration and civil service experts should study this problem in Greece and recommend the necessary measures. A complete study would probably take four to six months and would require scrutiny of the functions of all ministries and government services but interim recommendations could be made concerning steps to be taken at once. Since the pay scales of the armed services and the civil service have always been related in Greece, the applicability to the armed forces of the system worked out for the civil service would also have to be considered.

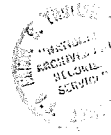
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Reorganization With the Ministries

Under the parliamentary form of government which exists in Greece, each minister is a member of Parliament, having been elected by some constituency. As suggested above, his following is largely personal so that his personal popularity is his principal political asset. Accordingly, each minister is constantly aware of the necessity of standing for election and of the fact that his return to Parliament depends more on his personal contacts and popularity than on the kind of a job which he has done as a cabinet minister. The result is that the ministers conduct their own offices in a manner which is literally amazing to any American observer. Members of the public are not met by appointment but, rather, have access to the minister's office at virtually all times. Large crowds are to be found in the offices and outside the doors waiting to get in. Whispered conferences are held by the minister with whoever happens to be near his desk as the crowd revolves. When this procedure is coupled with the fact that there is a minimum of delegation of authority, it is understandable that the ministries are able to function almost not at all. Of course, this difficulty will be corrected in time as the civil service improves and as capable permanent employees become more numerous. Nevertheless, there is no reason why a substantial improvement in the situation could not be achieved at once. Unified action on the part of the Government to organize ministers' offices and the selection of a few capable operating or executive assistants for each minister would do much to improve the effectiveness of the ministries.

Reorganization of the Government

Prior to 1911, the Government of Greece was made up of 7 ministries.



They were:

The Ministry of Finance
The Ministry of Justice
The Ministry of Foreign Affairs
The Ministry of Interior
The Ministry of Education
The Ministry of War
The Ministry of Marine

In 1912, Mr. Venizelos added the Ministry of National Economy. In 1918 when lands were distributed to the peasants, the Ministry of Agriculture was added. In 1922 when Greece faced the problem of arranging for the settlement of 1,500,000 refugees from Asia Minor, the Ministry of Social Welfare and Hygiene was added. From time to time, since 1937, other ministries have been organized. They include the following:

The Ministry of Merchant Marine
The Ministry of Labor
The Ministry of Public Works
The Ministry of Transport
The Ministry of Post, Telegraphs,
Telephones
The Ministry of Air
The Ministry of Public Order
The Ministry of Press and Propaganda
The Ministry of Supply
The Ministry of Reconstruction
The Ministry of Political Coordination
The Ministry of Coordination

In addition, as many as 7 Governors General hold the title of Minister. At one point as many as 40 ministries existed.

When Mr. Maximos became Prime Minister in February, 1947, he reduced the number of ministers by giving multiple titles to the ministers who made up his government. He then appointed a committee which was charged with the responsibility of presenting a plan for the reorganization of the Government. Mr. Mantzavinos, Governor of the Bank of Greece, was named chairman of the committee and representatives of The Ministry of

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Finance, The Government Economic Counsel, The University, The British Economic Mission, and of The American Economic Mission made up the committee. The committee recommended that various of the ministries be abolished and that their functions be transferred to the ministries which were to be retained. The ministries to be retained were:

The Ministry of Finance
The Ministry of Interior
The Ministry of Justice
The Ministry of Education
The Ministry of Foreign Affairs
The Ministry of National Defense
(to include the functions of the old
ministries of War, Marine and Air)
The Ministry of Public Works
The Ministry of Communications (to include
the functions of the old Ministry of
Transport and the Ministry of Posts,
Telegraphs, Telephones)
The Ministry of National Economy
The Ministry of Coordination
The Ministry of Agriculture
The Ministry of Social Welfare and Hygiene
The Ministry of Labor
The Ministry of Public Order

There were also to be three Governors General instead of 7.

This committee filed its recommendations with the Prime Minister but, to date, it appears that no action has been taken. While a mere reorganization of the government in this fashion and the mere redesignation of the ministries will not by itself achieve substantial improvement in the efficiency of the Government, nevertheless it is a necessary step and will bear fruit as the condition of the civil service improves.

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policy. As an example of the situation an inquirer meets, criticism is frequently directed at the merchant class for the large profits which they obtain from sales of merchandise, while the merchants themselves contend that business under strict Government regulation can scarcely be conducted at a profit. The inconclusiveness of much that follows results directly from the fact that the data available permits only broad generalizations.

PRICE CONTROL

Some form of price control has been in effect in Greece since 1915. The curriculum of the police schools has, since that time, contained a course in price checking and the Government has been authorized to limit excessive profits. The purpose of this program has been, and is today, the prevention of excessive profiteering by individuals. It is not a program designed to affect the price level generally.

At the retail and wholesale levels, the Government undertakes to prevent excessive prices in two ways. For many important food items specific retail prices are set and bulletins are issued at frequent intervals by the Ministry of Supply. Other food items and most items of textiles, clothing, hardware, houseware, etc., are subject to margin controls. Orders issued by the Ministry of Supply specify maximum margins to be used by retailers and wholesalers in computing prices for this merchandise.

These controls are allegedly enforced by uniformed market police, of which there are 124 in the Athens-Piræus area and some 5 or 6 in each district or nomos in Greece. The market police supposedly make regular investigations of prices charged in retail stores and follow up

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consumer complaints. If food prices specifically established by the bulletins are involved, the selling price (which the retailer is required to post) is checked against the bulletin. If commodities under margin control are involved, the police select an item, request the invoice, and check the margin between the posted price and the invoice cost to the retailer. If prices are improper under these tests, or if no invoice can be produced, the retailer is summoned to appear before a special court which handles price violations and violations of the pure food laws. If the wholesale price on an invoice appears to be excessive, the market police make a similar investigation of the wholesaler.

It should be pointed out that the margins allowed under these orders are low by American standards. In the textile field, margins are 30 percent on cost or lower; in other words, 23 percent on retail, or less. The highest mark-up allowed at wholesale is approximately 10 percent on costs.

The effectiveness of the enforcement of these controls of wholesale and retail prices is the subject of considerable disagreement. The view is generally held that the controls are meaningless, the belief being that none but minor offenders are haled before the bar of justice to answer for overcharges. On the other hand, a tour of stores with the market police appears to disclose food prices in line with prices in the published bulletins and margins in line with the margins specified in the orders. The discontent with the system undoubtedly stems from the fact that the price level, in spite of these controls, remains extremely high, largely because of the weakness in, or absence of, controls at the prewholesale level.

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Controls on prices charged by importers are supposed to be similar in nature to those imposed on sales by wholesalers and retailers, but enforcement in this area seems to be even less effective than at the retail level.

At the manufacturing level the principal controls relate to the price of cotton and cotton textiles. The Cotton Control was formally instituted by Government Economic Council decree on May 28, 1946. Its purposes were the lowering of wholesale prices for cotton textiles, the establishment of a firm price base against which the market police could check retail prices, the prevention of hoarding of cotton goods, and the promotion of operating efficiency in the industry. Efforts to institute controls made slow progress. A price for indigenous cotton was not fixed until after long debates lasting until September, 1946. Efforts were made to obtain cost data from mills but collection of this information had not been completed until January, 1947 and, even then, the information proved to be unbelievably inaccurate. For instance, costs for the same cloth constructions varied by over 200% and it developed that the producer who had reported the lowest cost figures had omitted 37% of his production.

As costs came in, however, the Cotton Control undertook to establish prices for specific items. These prices have been reduced from time to time as reductions in the price of yarn were achieved. While it is generally believed that the prices established by the cotton control are much higher than need be, nevertheless it is felt that the control has served a beneficial purpose and that efforts to improve it should be continued. The UNRRA index indicates that during the last half of 1946 textile prices declined rather substantially while most other items in the index went up. A major factor in this decline was that transportation difficulties prevented the shipment out of the Athens-Piraeus area of any sub-

stantial amount of textiles so that the market in that area was flooded. However, there is a very real possibility that the cotton control played a part in causing this decline.

There are many reasons why a price control system such as that which was employed in the United States would have been, and is, impossible in Greece.

First, the incompetence of the Civil Service is an important factor. A sophisticated system of price control could not be established by an untrained Civil Service and it could not be operated after it was once set up by a Civil Service which was grossly underpaid and, consequently, susceptible to corruption.

Second, the lack of statistics, both in Government and in business, constitutes a major handicap. Inadequate information is available for the determination of (1) price movements and the necessity of controls in specific areas, (2) potential danger points in the price structure, (3) the proper relationship of wages and prices, and (4) related matters necessary to the planning and operating of an effective price control system. Within business enterprises no records are available indicating pre-war or normal mark-up practices which are indispensable to the selection of a fair set of ceiling prices. No cost accounting system exists which can be used to determine the base to which mark-ups are to be applied, yet all prices for manufactured goods must, in view of the amount of inflation which has already occurred, be set by the cost plus method.

Third, the attitude of the people stemming from the occupation and the prolonged experience of inflation, must be reckoned with. After four years of occupation, during which the extent of disobedience of

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Government edicts was an index of one's patriotism, respect for or a desire to comply with "police" measures is totally lacking. The propensity to hoard, developed during this period and during the periods of inflation, alone renders Government efforts to control prices virtually impossible. For demonstration one need only look to the fact that the Varveresscs efforts to control prices were defeated by a virtual blockade of Athens in the middle of 1945, or to the fact that no effort to control prices of olive oil, an item of major importance in the diet of the average Greek, is currently made at all for fear that it will totally disappear from the market in spite of the fact that it is in ample supply. It must also be remembered that fear of an invasion from outside or of a successful Communist coup has been a major factor conditioning business decisions in all segments of the economy and has tended to promote instability in the price structure.

Bearing in mind these psychological factors, it is necessary to conclude that a relatively weak Greek Government is not in a position to use direct methods to control prices.

Rent Control

Rent control has been successful in Greece insofar as tenants who were occupying premises at the beginning of the war are concerned. In fact, with the increase in other prices, rent control has undoubtedly worked hardship on the landlord class. It has probably been allowed to remain in its present form largely because the condition of poverty in which the civil servants and wage earners have lived has meant that an extremely strong rent control policy was necessary if these people were to be provided with shelter.

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No controls exist, however, for the protection of new tenants. Since techniques are available for determining fair rentals of property not previously rented, it seems clear that this gap should be filled. The disparity in rents between property of this character and property rented before the war is extremely burdensome on new tenants and the unfairness insofar as the landlords are concerned must ultimately jeopardize the existing control.

Wage Controls

A system of wage controls insofar as industrial workers are concerned is said to exist in Greece. Decrees and orders have been issued establishing rates of pay for various jobs. However, these orders have been honored solely in the breach. Enough methods of evasion have been developed to warrant the statement that the current wage controls are totally devoid of effect at this stage.

It is not at all clear that an effort to revitalize these controls would be productive. Rather, it would seem that an effort should be made to develop a mediation service which can be of use in hastening solution of the labor management conflicts which will undoubtedly accompany a softening of prices of goods produced by Greek industry when the American aid program is in full swing.

Inventory Control

In spite of the aptitude of the Greek business men for hoarding, and in spite of the absence of records by which normal stocks or normal working inventories can be determined, it would seem that a rough and ready method of inventory control, to be used as an anti-hoarding measure, could be devised, and that such a measure would have beneficial

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effects. There is a widely held belief in Greece that substantial hoards of important essential commodities are currently held by businesses and by individuals at the present time. If these goods could be forced onto the market, it would tend to reduce prices.

Earlier efforts at inventory control have failed for lack of enforcement. The controls were too complicated, called for too much paper work by the Government, and were undoubtedly too drastic in initial impact. As a substitute for immediate use, the following plan is suggested. A law should be passed by Parliament making illegal the possession or ownership of a supply of any commodity in a list of designated commodities if the supply held or owned is in excess of the reasonable minimum working requirements of the business of the holder or owner. The law should also provide that on and after a specified date in the future the law will go into effect, but that no individual will be deemed to be in violation of the law if, by that date, he has submitted a list showing his excess inventory of the commodities on the list, checked and approved by a member of the market police, and if he thereafter proceeds to liquidate his inventory at a given rate (for instance, 15%) per month. No statement of inventory would be required of any person whose inventory is not in excess of the reasonable requirements of his business. The sanction would be government confiscation of all inventories held in violation of the law.

Such a plan could be an effective instrument to control hoarding if, first, the list designates commodities which are carefully selected, excluding any items clearly in excess supply; and second, if enforcement is limited to clear cases of violation and is, for these cases, swift and sure.

Of course, if such a program were undertaken, it should be preceded

with proper publicity, explaining the purpose of the program, the effect of hoarding on the economy, and the necessity that Greece make the fullest use of its own supply of goods.

Conclusions

It is apparent that the problem of inflation in Greece cannot be solved by direct controls. Rather, its solution depends on foreign aid which will furnish needed supplies of goods and balance the budget, and on the return of some measure of confidence in the political security of Greece.

Obviously this solution to the problem will not occur over night. In the interim, direct controls, including anti-profiteering and anti-hoarding measures, can serve a useful economic purpose and will be of real importance for social and welfare, not to mention political, reasons. Toward these ends pricecontrol should be improved, because it can do much to alleviate the situation in the interim and to hasten recovery in Greece. Certainly, a continuation and improvement of the Cotton Control can be of importance in the immediate future and can result in long term benefit to the industry. The institution of an affirmative anti-hoarding campaign can help. However, any major efforts by the American Recovery Mission to institute a sophisticated system of price control in Greece will undoubtedly be doomed to failure until the situation is well on the way to correction by broader measures.

CHAPTER VI

RECONSTRUCTION AND DEVELOPMENT

Recovery for Greece will require the reconstruction of the country's war-damaged property so that normal production, distribution and commerce can resume. In addition the further development of natural resources and related industries should be undertaken to increase employment, to raise the national income and to eliminate the persistently unfavorable balance of trade which characterized the pre-war economy.

The first efforts at reconstruction since Liberation have been handicapped by uncontrolled competition between Ministries and Departments for the largest possible share of the limited funds available. This has resulted in such a thin distribution of funds that there has been little accomplished. Moreover, there has been an almost complete lack of coordinated planning of a realistic reconstruction program. In an effort to remedy this situation the Greek Government, in July 1946, established a Board of Reconstruction to act in an advisory capacity under the supervision of the Minister of Coordination. This Board, composed of engineers and economists, was directed to work out a program for the rehabilitation from war damages, as well as for the development and exploitation of the productive resources of the country.

The Board of Reconstruction has served a useful purpose as a clearing house for Greek reconstruction needs. Unfortunately, however, perhaps because of its broad terms of reference, it has placed emphasis on a long-term program and neglected immediate and essential needs. The long-term program is somewhat utopian in character and envisages a vast expansion of pre-war public works facilities without having first established their economic utility. The first five years of this

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program include plans which relate more to improvement than to reconstruction. The Board's estimate of cost for their five-year plan amounts to \$2,169,931,000.

It is evident that the program of the Board of Reconstruction is unrealistic from the standpoint of any financial resources available to Greece. It is also clear that the country does not have the capacity to absorb expenditures of this magnitude in the time involved. The Mission, therefore, revised the Board's program and suggests alternatives consistent with the financial support which might reasonably be available. It has undertaken to limit the program to projects which are essential to a resumption of normal production, distribution and commerce. These facilities will, in general, fall in the following categories:

- (1) Transportation (roads, railroads, ports, canals)
- (2) Utilities (power, telephone, telegraph, water supply, sewage)
- (3) Basic industries (fertilizer, textiles, food processing, mining, etc.)
- (4) Agriculture (flood control, drainage, irrigation)
- (5) Housing.

In estimating the costs of this revised program, the Mission has been compelled to rely largely on data prepared by the Board of Reconstruction. Due to the absence of reliable present-day cost data, it was necessary for the Board to base its estimates on known costs of 1938 adjusted roughly to current price-levels. The estimates assumed that the prices of capital equipment and supplies purchased abroad would be about double pre-war and that internal prices for supplies and labor would be about 145 times pre-war. (On these assumptions, local costs expressed in dollars are the equivalent of about 8,000 drachmas

per dollar.) While prices in the United States have not risen to this extent, it must be realized that many of the 1938 prices were for German products and were considerably below the then prevailing United States prices. Giving consideration to this fact, it is believed that the assumption that dollar costs will be twice the 1938 dollar equivalent is a reasonable one. The estimated increase in drachma costs appears reasonable on the basis of the price data available.

It should be emphasized that the Mission had no opportunity to make a detailed check of the Board of Reconstruction estimates. It did, however, make spot checks whenever possible, and is of the opinion that the estimates are sufficiently accurate to afford a reasonable measure of the magnitude of the reconstruction projects involved.

Reconstruction.

The program of reconstruction -- not including development -- which the Mission believes could be effectively carried out during the next five years involves estimated expenditures during that period of about \$260 million. Of these estimates \$151 million represents costs in Greece and the balance of \$109 million is for foreign equipment, materials and supplies. A breakdown of this program showing estimated local and foreign costs by categories for each of the five years is presented in the accompanying tabulation. A more detailed discussion of the principal elements of the program is given in subsequent sections of this chapter. It is emphasized that the Mission's reconstruction program is directed toward the most essential restoration. Taken alone it will definitely not result in a complete restoration of pre-war conditions, but it is hoped that it will improve the present situation so as to permit important supplementary efforts on the part of both

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the Greek Government and local industry, particularly during the latter part of the five-year period.

Funds made available for reconstruction in Greece should be used for carefully selected projects and purposes. The dissipation of funds in small amounts spread over many projects will not result in any real benefit to the Greek economy. The selection and scheduling of projects should be undertaken by a board of economists and engineers, including representatives of the American Recovery Mission, which would give due consideration to:

1. Essentiality of projects,
2. Economic benefits to be derived,
3. Estimated cost as compared with available funds,
4. Relationship to entire reconstruction program.

The Mission is of the opinion that such a selection and scheduling would probably give high priority to the following projects as yielding the greatest immediate returns:

1. Permanent reconstruction of important sections of roads in all parts of the country, selected on the basis of traffic, population and availability of other transportation,
2. Restoration of bridges and tunnels on the Athens-Salonika, Salonika-Ghevgheli and Plati-Edhessa Railroad lines,
3. Supply of motive power and rolling stock for the present needs of the railroads,
4. Necessary replacement of rails and ties on restored railroad lines,
5. Restoration of essential facilities at the Ports of Piraeus, Salonika and Volos in the order named,

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6. Restoration of the Corinth Canal, including a high level bridge or bridges for road and railroad service,
7. Restoration of flood control, drainage and irrigation works in the Salonika, Serres and Drama plains.

As pointed out earlier, economic health in Greece will ultimately depend on a further development of the country's resources. This was recognized by students of the Greek economy before the War and efforts were made at that time to initiate projects for the expansion of agriculture, the development of water power, the exploitation of mineral resources and the establishment of certain basic industries.

These efforts, in most cases, resulted from individual enterprise seeking special concessions, but there was a conspicuous lack of over-all planning as to how the resources of Greece could best be used. The present Greek Government recognizes the need for such an over-all study and provided for it in the terms of reference to the Board of Reconstruction. The actual investigation, however, was entrusted to a special committee of UNRRA. The work of this committee is still in progress and therefore its final conclusions are not available to the Mission.

It is expected that the UNRRA studies will provide a comprehensive analysis which will indicate fields of development offering the greatest promise. It must be realized, however, that even these studies will probably be inconclusive with respect to any particular project or group of projects because of the lack of definite experience and reliable data in Greece on these matters. Consequently, there will be a need for more detailed investigations by United States firms with specialized experience in the fields to which the more promising projects relate.

Development.

The Mission believes that the prospects of further development in Greece offer real opportunities. It feels, however, that the number of projects which have been sufficiently tested to warrant an immediate undertaking is relatively small. It also feels that, in view of the urgency of basic reconstruction, any immediate development program should be limited to projects which have sufficient prospects for improving the general economy of the country to justify diversion of funds from reconstruction of essential facilities. These projects should be subject to the approval of the American Recovery Mission based on satisfactory evidence of their technical feasibility and economic justification.

In view of the foregoing, the Mission has concluded that only limited funds should be made available for development projects in the immediate future. There exist possibilities of expanding flood control, drainage and irrigation works to increase food production. Modernization of mining methods and the further development of lignite may be indicated. It may be possible to initiate one or more of the proposed hydroelectric schemes. But in the absence of more complete conclusions, the Mission has assumed that investment in development projects during the next five years will not exceed .75 million and this amount has been included in the accompanying table showing the estimated five-year cost of a minimum reconstruction and development program.

This does not mean that local Greek resources and properly supervised private concessions cannot be used to a greater extent to facilitate development. Much will depend upon the use made of foreign assistance in the early stages of Greek recovery. If Greece takes full advantage

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of the opportunities inherent in the recovery program, both foreign and local capital can be used for development projects considerably in excess of the amount included. Further, a continuing review should be maintained over the progress of reconstruction and recovery in order that additional development projects can be considered in the light of Greece's capacity to program and absorb them.

Even the reconstruction and development program outlined herein will require an annual volume of construction work which could overtax the planning, organization and construction capacities of the Greek engineers and contractors. To assure the full effectiveness of this program, therefore, it will be essential to employ United States and other foreign engineering and construction firms to the greatest possible extent in the planning, investigating, designing and building.

RECONSTRUCTION AND DEVELOPMENT
ESTIMATED FIVE YEAR COST - MINIMUM BASIS*

	Million Dollars																	
	First Year		Second Year		Third Year		Fourth Year		Fifth Year		Total							
	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign	Local	Foreign						
Reconstruction:	16.1	4.4	20.5	12.1	2.6	14.7	10.5	2.3	12.8	10.2	2.4	12.6	10.7	2.6	13.3	59.6	14.3	73.9
Roads	2.5	6.0	8.5	2.5	6.0	8.5	2.5	6.0	8.5	-	-	-	-	-	-	7.5	18.0	25.5
Railroads	3.2	4.0	7.2	3.2	4.0	7.2	1.7	1.7	3.4	-	-	-	-	-	-	8.1	9.7	17.8
Ports	2.0	3.5	5.5	2.0	3.5	5.5	2.0	3.5	5.5	-	-	-	-	-	-	5.0	10.5	16.5
Telecom.	4.0	10.0	14.0	4.0	10.0	14.0	4.0	8.0	12.0	3.0	7.0	10.0	1.0	5.0	6.0	16.0	40.0	56.0
Mines & Ind.	1.3	1.2	2.5	1.3	1.2	2.5	1.3	1.2	2.5	-	-	-	-	-	-	3.9	3.6	7.5
Reclamation	10.0	2.5	12.5	10.0	2.5	12.5	10.0	2.5	12.5	10.0	2.5	12.5	10.0	2.5	12.5	50.0	12.5	62.5
Housing	39.1	31.6	70.7	35.1	29.8	64.9	32.0	25.2	57.2	23.2	11.9	35.1	21.7	10.1	31.8	151.1	108.6	259.7
Development																		
Agriculture)																		
Mines & Ind.)	2.5	2.5	5.0	4.5	5.5	10.0	7.0	8.0	15.0	9.0	11.0	20.0	12.0	13.0	25.0	(20.0)	20.0	40.0
Utilities)	2.5	2.5	5.0	4.5	5.5	10.0	7.0	8.0	15.0	9.0	11.0	20.0	12.0	13.0	25.0	(5.0)	10.0	15.0
TOTAL	41.6	34.1	75.7	39.6	35.3	74.9	39.0	33.2	72.2	32.2	22.9	55.1	33.7	23.1	56.8	185.1	148.6	334.7

*This estimate includes only the most essential work and involves an arbitrary reduction of the funds estimated to be needed for restoration of roads and housing. The resulting program will not provide a complete restoration to prewar levels.



Roads

Pre-war Situation: At the outbreak of the War, Greece had in full operation a road network of 14,721 kilometers of which 7030 consisted of modern roads constructed since 1927 and the remaining 7691 consisted of older roads which were being gradually renewed to meet modern traffic needs. This network was classified by width of paving and standards of grade and curvature as follows:

Class A	3967 Km.
Class B	5576 "
Class C	<u>5178 "</u>
Total	14,721 Km.

In addition to the foregoing network, the Greek State was constructing additional roads having a total length of 5558 kilometers of which 2506 were in a usable, although uncompleted, state. Thus the total usable length of road network amounted to 17,227 kilometers in 1940.

Increased road building began in 1929-31 with the aid of foreign loans in 1928. During the years immediately following, construction was limited to amounts made available in the regular budget which were progressively larger, finally culminating in annual new construction of about \$10,000,000 in the years 1938 and 1939. In the same years funds expended for maintenance amounted to about \$1,700,000 annually. Expenditures in these later years were largely for the construction of roads for military purposes, particularly in northern Greece.

Most of the roads in Greece are of waterbound macadam construction with wearing surface varying from asphaltic concrete in heavily travelled sections to the simple macadam surface in sections of light traffic. However, the wearing surface usually provided is of penetration asphalt

or bituminous surface treatment.

Present Situation: By the end of 1946, the Greek road network had reached a deplorable state. Bridges and culverts had been destroyed by military forces. Roads not needed for military operations had suffered from lack of maintenance. Further deterioration had resulted from the heavy post-war trucking operations made necessary by the destruction of the railways. According to the Ministry of Public Works 764 bridges had been destroyed up to the time of Liberation and the condition of the road surfacing in August 1946 was as follows:

	<u>kilometers</u>			
	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Total</u>
Good	440	270	101	811
Fair	560	520	170	1,250
Bad	2,927	2,546	787	6,260
Impassable	<u>40</u>	<u>2,240</u>	<u>4,120</u>	<u>6,400</u>
Total	3,967	5,576	5,178	14,721

Preliminary Restoration: During the two and a half years since Liberation, restoration of the road network has been carried out on a very limited scale. Appropriations equivalent to only \$4,774,000 have been made for this purpose. It is significant that about one third of these funds have been expended on construction of new and semi-finished roads instead of on repairing damages. Although considerable progress has been made in rebuilding destroyed bridges and culverts, much of the money so far expended on road restoration has necessarily been used for provisional repairs such as the erection of Bailey bridging furnished by the British Military Liaison and UNKRA and the temporary patching of road surfacing. These provisional works were fully justified

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by the urgent necessity of restoring road communications but they do not represent any permanent progress in the solution of the road program. Repairs to road surfacing have not even kept pace with the further deterioration since Liberation.

UNRRA has assisted in the road restoration program through the importation of 1117 tons of Bailey bridging, 10,700 tons of asphalt and large quantities of construction equipment. Unfortunately, however, much of the equipment has remained unused because of lack of local funds needed for its repair, operation and maintenance. Additional equipment to the extent of more than \$4,000,000 has been purchased through the Eximbank credit but has not yet been delivered. The principal items of equipment from these two sources are:

<u>UNRRA (up to Feb. 21, 1947)</u>	<u>Eximbank Credit</u>
52 Road rollers	150 Road rollers
85 Crawler tractors	100 Dump trucks
69 Air compressors	160 Compressors
8 Motorized graders	30 Asphalt distributors
5 Tow type graders	60 Preheating kettles
46 Asphalt sprayers	30 Emulsion sprayers
6 Rooters	40 Crushing plants
56 Crushing and screening plants	18 Crushing and pulverizing plants
70 Concrete mixers	
106 Crawler cranes	

The above equipment should permit the assembly of fairly well balanced construction groups except for dump trucks and graders which have not been provided in sufficient quantity.

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Reconstruction Program: The Greek Board of Reconstruction has presented an elaborate program for the reconstruction and further development of the road system which, according to its estimates, involves expenditures equivalent to the following:

	<u>Million Dollars</u>
Stage I (first five years)	301.4
Stage II (next fifteen years)	540.0
Stage III (next ten years)	<u>240.6</u>
Total (30 year program)	1,082.0

The first stage, the only one considered in this Report, is divided into two concurrent programs:

	<u>Million Dollars</u>
1. Restoration of war damage	117.6
2. Further improvement and development	<u>183.8</u>
Total Stage I	301.4

In view of the magnitude of the expenditure involved, it seems likely that roadbuilding activities in Greece for the next five years will have to be limited to restoration, which according to the above would be about \$24 million per year. This has been divided into two concurrent phases:

	<u>Million Dollars</u>
1. Provisional repairs	27.9
2. Permanent repairs	<u>89.7</u>
Total	117.6

The program for provisional repairs involves progressively decreasing expenditures as permanent repairs are effected and provides for the following:

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	<u>Million Dollars</u>
43,201 kilometer years of temporary repairs @ \$590	25.5
2,506 kilometer years of improving incompletd roads @ \$880	2.2
Temporary wooden bridges, access roads, etc.	<u>0.2</u>
Total	27.9

The program for permanent repairs involves the following work:

	<u>Million Dollars</u>
162 kilometers of permanent (sheet asphalt surfacing @ \$16,000	2.6
88 " semi-permanent surfacing @ \$9,100	0.8
558 " repairs to asphalt surfacing @ \$1970	1.1
2919 " renewal of bituminous macadem @ \$6450	18.8
1700 " waterbound surfacing @ \$1825	3.1
6346 " renewal of waterbound surfacing @ \$4275	27.1
1879 " sand and gravel surfacing @ \$2770	5.2
1069 " crushed stone surfacing @ \$2240	2.4
(14,721) " repairs to subgrade @ \$900	13.3
Repairs to structures	6.3
Miscellaneous work on uncompleted roads	<u>9.0</u>
TOTAL 14,721 kilometers @ \$6100	89.7

While it has been impossible to make an independent check of the foregoing estimates, they appear reasonable for the amount of work involved. Summarized by annual expenditures, they result in the following:

	<u>Million Dollars</u>		
	<u>Temporary Repairs</u>	<u>Permanent Repairs</u>	<u>Total</u>
1st Year	12.3	14.1	26.4
2nd Year	6.1	17.2	23.3
3rd Year	4.8	15.9	20.7
4th Year	3.3	18.7	22.0
5th Year	<u>1.4</u>	<u>23.8</u>	<u>25.2</u>
Total	27.9	89.7	117.6

The Board of Reconstruction states that pre-war roadbuilding experience showed the following distribution of costs:

	<u>New Construction</u>	<u>Maintenance</u>
Foreign material and equipment	26%	19%
Local labor and material	<u>71%</u>	<u>81%</u>
Total	100%	100%

The foreign costs shown are probably lower than would be the case now since Greek roadbuilding was not highly mechanized and local funds were more available than at present. On the other hand the reconstruction estimates reviewed above include only small amounts for construction equipment as they have discounted the equipment already furnished by UNRRA and purchased through the Eximbank credit. Furthermore, the provisional repairs, amounting to 23.7 percent of the program, can be accomplished with a minimum of equipment. On the basis of the foregoing it is believed that the following represents the probable division of the reconstruction program between local and foreign costs.

	<u>Million Dollars</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Provisional repairs	23.7	4.2	27.9
Permanent repairs	71.8	17.9	89.7
Additional equipment	-	<u>2.4</u>	<u>2.4</u>
Total	95.5	24.5	120.0

The distribution of the above costs by years would be about as follows:

	<u>Million Dollars</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
1st Year	21.7	7.1	28.8
2nd Year	19.0	4.3	23.3
3rd Year	16.8	3.9	20.7
4th Year	17.8	4.2	22.0
5th Year	<u>20.2</u>	<u>5.0</u>	<u>25.2</u>
Total	95.5	24.5	120.0

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Except for the additional equipment already indicated and for such spare parts as may be necessary from time to time, the \$24.5 million of foreign expenditure would be used almost exclusively for such items as asphalt, road oils, reinforcing steel, gasoline, diesel oil, lubricants, etc. To the extent that foreign construction organizations are used as recommended below, the foreign exchange requirements would be increased by fees and expenses. Assuming that one half of the permanent reconstruction were to be performed by such organizations, the additional foreign exchange requirements would amount to about \$5,500,000 making a total of \$30,000,000.

Conclusions: The restoration of the Greek highway system presents the largest single public reconstruction problem in Greece both from the standpoint of the funds required and the organization needed to carry it out. The present condition of the roads is reflected in the economic condition of the country through high costs of transportation, mortality of automotive equipment, uncertain and slow deliveries of supplies, and difficulty in transporting materials badly needed in other phases of reconstruction.

While recognizing the primary importance of restoring road transportation in Greece, the Mission feels that the cost of the five-year program described above is out of proportion to that of other urgent reconstruction needs. Consequently, in preparing the estimate of cost of a general reconstruction and development program, which is summarized in the tabulation accompanying this chapter, the funds allocated to road reconstruction were arbitrarily reduced on the assumption that only one half of the proposed permanent repairs would be carried out during the period under consideration. The revised program would then be as follows:

	<u>Million Dollars</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
Provisional repair	23.7	4.2	27.9
Permanent repairs	35.9	8.9	44.8
Additional equipment	---	1.2	1.2
Total	59.6	14.3	73.9



and the distribution of the above costs by years would be:

	<u>Million Dollars</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
1st Year	16.1	4.4	20.5
2nd Year	12.1	2.6	14.7
3rd Year	10.5	2.3	12.8
4th Year	10.2	2.4	12.6
5th Year	10.7	2.6	13.3
Total	59.6	14.3	73.9

Various suggestions have been made for compulsory service of all able-bodied male citizens in a road repair program. Such a procedure might well be used in carrying out the emergency repairs and maintenance which in any event will have to be performed concurrently with a more permanent restoration program. It must be recognized, however, that no real progress can be made in restoring Greece's highways until sufficient funds are available to rebuild rather than patch. The rebuilding to pre-war condition of Greece's large network of roads requires the use of construction methods and organization not readily adaptable to a forced labor program. In particular it requires the skillful use of modern roadbuilding equipment and techniques.

A large amount of roadbuilding equipment is now in Greece or on the way. As soon as funds are available for local expenditures, this equipment should be organized into working units and assigned to specific road restoration jobs. As additional foreign exchange becomes available, the present equipment should be balanced by the purchase of additional

dump trucks and motor graders.

The selection of specific sections of road upon which to initiate the restoration program should be governed by economic rather than political considerations and should take into account:

1. Extent of population served.
2. Volume of traffic.
3. Importance as supply route.
4. Absence of other communication by rail or water.
5. Present condition of road.

The type of road surfacing to be used should be governed by the volume and type of traffic. In particular, consideration should be given to the use of gravel surfacing for secondary and feeder roads and the establishment of a regular maintenance schedule for their upkeep, using motor-graders or truck towed drags.

Advantage should be taken of recent developments in highway design and maintenance. This could best be accomplished by retaining the services of an experienced United States highway engineer who would act as technical advisor to the Highway Department of the Ministry of Public Works. The United States engineer should preferably be one who has been associated with a State Highway Department and who has been responsible for the maintenance and repair of low cost bituminous highways in a terrain comparable to that which characterizes Greece.

The magnitude of the road restoration problem makes imperative the use of modern mechanized construction methods. For this reason, it is believed advisable to contract portions of the work to qualified United States roadbuilders in order to take advantage of their know-how in the expeditious organization and execution of this type of work.

Such a procedure would assure best use of available equipment. It would also provide a demonstration program for the benefit of Greek contractors and perhaps improve their methods.

The Highway Department of the Ministry of Public Works should be brought to a degree of organization which will permit the decentralization of much of its work. In particular, the responsibility for planning and executing maintenance should be delegated to the field with the establishment of qualified technical personnel and working forces in each region. Facilities should be provided for adequate maintenance of equipment by the establishment of equipment depots and shops at strategic points.

Railroads

Pre-war Situation: The pre-war railroad systems of Greece consisted of the following:

	Kilometers			Total
	Standard Gauge	Meter gauge	Narrow Gauge	
Hellenic State Railways (SEK)	1272	-	67	1339
Piraeus-Athens-Peloponnesus Railways (SPAP)	-	799	22	821
Greek-French Railway Co. (VES)	185	-	-	185
Thessaly Railways (STH)	-	202	28	230
Northwestern Greece Rlwys. (SEDE)	-	71	-	71
Pyrgos-Catacolon Rlwy. (SPVK)	-	13	-	13
Hellenic Electric Rlwys. (EHS)	20	-	-	20
Totals	1477	1085	117	2679

The Hellenic Electric Railways is the only system using electric traction. It supplies passenger service between Perama and Piraeus and Piraeus and Athens and the latter line is the only double track section in the country. All other systems operate over single track lines with steam or diesel traction. Excluding the Hellenic Electric

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Railways, 90 percent of the passenger traffic and 92 percent of the freight traffic in 1938 was handled by the SEK and SPAP systems.

The standard gauge main line of SEK extends from Piraeus through Athens and Salonika to Alexandroupolis where it connects with the French-Greek Railway system which provides access to Istanbul via Pithion and Sofia via Svilengrad. Other standard gauge SEK lines provide service to Yugoslavia from Salonika via Ghevgheli and from Plati (just west of Salonika) via Kremenitza. Between Athens and Salonika branches connect with the seacoast towns of Khalkis and Stilis.

The meter gauge system of the SPAP extends from Piraeus via Athens, Corinth, Tripolis and Zevgolatio to Kalamata with branches to Nafplion, Megalopolis and Messini. From Corinth a line extends along the north and west shores of the Peloponnesus via Patras and Pyrgos and rejoins the Corinth-Kalamata line at Zevgolatio. Between Patras and Zevgolatio branches extend to Kyllini, Loutra, Olympia and Kiparissia and connection is made with the Pyrgos-Catacolon Railway. SPAP also operates a branch line from Athens to Lavrion on the Attica peninsula.

Information as to pre-war motive power and rolling stock is conflicting but the following is believed to be a close approximation:

	<u>SEK</u>	<u>SPAP</u>	<u>Others</u>	<u>TOTAL</u>
Main line locomotives	145	93	38	276
Shunting locomotives	75	22	-	97
Diesel cars	2	16	-	18
Passenger, mail, and baggage cars	445	211	115	771
Freight cars	4556	988	792	6336

The foregoing equipment is reported to have been inadequate for pre-war traffic. The average age of locomotives in 1938 was estimated to be 40 years, the number of locomotives and cars in bad order was high and the equipment was not in a good state of repair. Most of the freight cars were of small capacity and of the two axle type.

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The permanent way of the Greek railway systems is characterized by light rails and bridges and the general pre-war condition is stated to have been below Central and Western European standards.

War Damage: The Greek railroad systems were heavily damaged by the retreating Axis forces. This damage took the form of destruction of motive power, rolling stock, stations and shops and the interruption of permanent way by demolition of bridges and tunnels.

Damage to permanent way was particularly heavy throughout the SPAP system and on the Piraeus-Salonika, Salonika-Ghevgheli and Plati-Kremenitsa sections of the SEK system. Practically all key bridges and tunnels on these sections were destroyed. In contrast, the permanent way of the SEK system between Salonika and Alexandroupolis suffered only minor damage.

The destruction of motive power and rolling stock was general throughout all railroad systems. Most of the SPAP equipment was derailed over cliffs and burned. Most of the SEK locomotives were demolished by explosive charges and the rolling stock largely burned. As a result, the SPAP system had only 6 locomotives, 11 railcars, 15 passenger cars and 102 freight cars available for operation immediately after evacuation. Similarly, the equipment remaining of the SEK system consisted of 26 locomotives, 24 passenger cars and 536 freight cars.

Preliminary Restoration: The preliminary restoration accomplishments of the Greek railroads has been one of the few bright spots in the reconstruction picture to date. This is particularly true of the SPAP system which, with the exception of a few short branch lines, has been restored to traffic. The entire Salonika-Alexandroupolis line of SEK is in operation as well as disjointed sections of the Piraeus-Salonika

line aggregating 347 kilometers (out of a total of 563). The Greek-French Railway Co., Pyrgos-Catacolon Railway and Thessaly Railways system and a major part of Northwestern Greece Railways system are also in operation.

For the most part, operations have been restored by provisional reconstruction of damaged structures and by cannibalization and repair of damaged locomotives and rolling stock. Because of the temporary nature of the repairs to bridges and the generally deteriorated condition of the trackage and roadbed, trains can only operate at greatly reduced speeds. Operations are also handicapped by severe shortages of motive power and rolling stock.

Much of the progress to date has been made possible by the assistance of the Allied Military Liaison and UNRRA which provided 16 locomotives, 287 freight cars, 6900 tons of rails and accessories, 7500 tons of bridges and bridge materials, 45000 ties and machine tools for locomotive and car repair shops. Additional UNRRA supplies of 6500 tons of bridges and 352 box cars are expected. The Greek Government has secured 8 locomotives and 1050 freight cars from Army surplus in France but has not yet found a solution to the problem of transporting them to Greece.

The Eximbank credit has been used to purchase 80 boxcars which have been received, 16 locomotives which are due shortly, a car repair shop, 10 tank cars, locomotive repair parts and various construction equipment. The total amount of these purchases is approximately \$2,000,000.

The total investment to date in railroad reconstruction is as follows:

	<u>Thousand Dollars</u>
Greek Government allocations to SEK & SPAP	2,816
From SEK and SPAP revenues	1,061
From other railroad revenues	457
Cost of M. L. Materials	883
Cost of UNRRA Materials	5,416
From Eximbank credit	2,000
	<hr/> 12,633

Reconstruction Program: The Greek Board of Reconstruction has submitted a program of railroad reconstruction involving the expenditure of over \$232 million during a ten-year period. The program includes:

	<u>Estimated Cost</u> <u>(Thousand Dollars)</u>
Permanent restoration of pre-war railroads	90,505
Improvement of existing networks and completion of unfinished railroads	69,535
Construction of new railroads and extension and further improvement of existing networks	<u>71,993</u>
	232,033

No justification of the foregoing program or detail of the estimates have been furnished but even the first step in its entirety, is clearly beyond any financial resources which will be available to Greece in the near future. There is good reason to question how large a part the railroads will play in the future economy of the country. The answer will depend on the extent to which it proves feasible to develop national resources and on the relative economics of truck, rail and water transportation. In the meantime, however, rail transportation can be restored to somewhere near pre-war level with a minimum additional investment. Such a course is advisable because it can be carried out in a short time as compared with highway improvement and it will protect the existing railroad investment until such time as it is possible more clearly to determine the advisability of further improvement.

Conclusions: The Mission is of the opinion that the immediate program should be limited to:

1. Restoration of through service on the Piraeus-Salonika line by replacement of destroyed bridges and reopening of damaged tunnels.

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2. Restoration of the Salonika-Ghevgheli and Plati-Edhessa lines.
3. Necessary replacement of rails and ties to maintain service over restored lines.
4. Rebuilding of repair shops facilities to permit more progress in salvaging locomotives and cars.
5. Furnishing additional motive power and rolling stock required to serve present traffic needs of SEK and SPAP.

Based on information supplied by the two leading railroads, it is believed that the foregoing can be accomplished with a total investment of \$25.5 million during a three-year period. For the purposes of this report, it has been assumed that the sum would be expended as follows:

	<u>Million Dollars</u>		
	<u>Local Costs</u>	<u>Foreign Costs</u>	<u>Total</u>
1st Year	2.5	6.0	8.5
2nd Year	2.5	6.0	8.5
3rd Year	2.5	6.0	8.5
	<u>7.5</u>	<u>18.0</u>	<u>25.5</u>

In formulating plans for the acquisition of motive power and rolling stock, it is essential to coordinate the several possible sources of such equipment. In particular, it is essential to evolve some plan for effective utilization of railroad equipment available under Greece's surplus property credits. This will involve more than the mere exercising of such credits as has already been evidenced by the purchase of cars and locomotives in France which are not yet available for Greek use because of financial difficulties relating to their transportation.

The reconstruction work on the Athens-Salonika line involves some difficult construction work in the reopening of tunnels and rebuilding of major bridge structures. It is probable that this work could be most expeditiously carried out under the direction of a United States contracting firm experienced in this type of activity. It may also be advisable to employ United States consultants on special bridge design problems and as advisors in the selection of motive power and rolling stock.

Ports and Canals

Pre-war Situation: Because of its geographical characteristics Greece has always depended on water transportation for much of its commerce, both domestic and foreign. As a result, it has developed many ports varying from simple coves served by small sailing vessels to elaborate harbors which serve as ports-of-call for overseas vessels. The aggregate pre-war annual traffic is reported as 7,045,000 tons, of which 4,550,000 tons or 65 percent constituted foreign movement and 2,495,000 tons or 35 percent represented local movement. In addition, there was an annual passenger traffic of 2,100,000 persons.

Altogether, there are some 196 harbors in general use in Greece. It is difficult to differentiate as to the importance of any particular harbor as a small simple port may be just as vital to the economic life of the area it serves as the most elaborate port is to a more developed area. However, for the purposes of this report, it is necessary to be guided by the relative volumes of traffic handled. On this basis, the following five ports rank as first in importance, particularly as regards foreign trade:

	<u>Approximate pre-war annual traffic</u>			<u>Passenger</u>
	<u>Freight in tons</u>		<u>Total</u>	
	<u>Foreign</u>	<u>Domestic</u>		
Piraeus	2,050,000	1,150,000	3,200,000	1,200,000
Salonika	680,000	220,000	900,000	65,000
Patras	150,000	100,000	250,000	200,000
Volos	130,000	120,000	250,000	50,000
Kalamata	100,000	40,000	140,000	-----
	3,110,000	1,630,000	4,740,000	1,515,000

These five ports account for 68 percent of the foreign traffic, 65 percent of the domestic traffic, and 72 percent of the passenger traffic.

While Kalamata is included in the foregoing list because of its large foreign trade, it should be observed that, from the standpoint of local commerce, it is equalled or exceeded in importance by the ports of Kavalla, Preveza, Candia, Corfu, Chio, Mytilene, Canea and Chalkis. These eight ports, five of which are located in the islands, account for an additional 6 percent of the foreign trade, 17 percent of the domestic trade and 12 percent of the passenger traffic.

In considering the pre-war situation with respect to Greek ports, it is important to realize that Greece was engaged in an ambitious program of port improvement at the time she became involved in the War. As a result, many of the ports were in a semi-finished condition in 1940. For example, at Kavalla the breakwater and quays had been completed, but no warehouses or mechanical equipment had been provided. Other similar instances could be cited.

The pre-war harbor of Piræus included improvements made during the period 1924-1934 which consisted of the two breakwaters protecting the entrance, a 475 meter coal wharf equipped with two 150 ton per hour coal bridges, 1060 lineal meters of quay equipped with 17 two-ton cranes and 4 five-ton cranes, five warehouses with aggregate floor area 50,945 square meters, and 1165 lineal meters of quay without equipment. In addition to the foregoing facilities which are located on the north side of the harbor, the south side of the port, although unimproved, was available for small coastal craft. The 1938 commercial movement was as follows:

General cargo	2,389,705 tons
Coal	660,000 "
Subtotal	3,049,705 "
Oil (handled outside port)	373,590 "
Total	3,423,295 "

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It is stated that the above volume of traffic resulted in acute congestion and accumulation of goods along the quays. This was probably partly due to lack of sufficient warehouse capacity and failure promptly to move goods away from the port. It is also probably true, as claimed, that the volume of traffic had outgrown the capacity of the improved port, indicating the necessity of further development.

The port of Salonika was being improved at the time the War broke out. The old port consisted of a 525 meter breakwater, 1012 lineal meters of quays and associated warehouse for Greek and foreign shipping and 300 meters of quays for use by Yugoslavia. These facilities were suitable only for coastal and other small vessels as the depth of water was only 8 meters. A beginning had been made on a modern port with the completion of 793 lineal meters of quays with 10 meter draft, two large warehouses, and a large cargo handling crane. The extension of the breakwater to protect these new works had not yet been initiated.

At Patras, the breakwater and quays had been completed and a cargo handling crane had been installed but no paving or warehouses had been undertaken. At Kalamata, much the same situation obtained except that some paving and structures had been provided.

With the exception of Piraeus, most of the principal Greek ports are administered by semi-autonomous Port Committees consisting of a chairman selected by the local Chamber of Commerce, a member appointed by the Prefect, and a representative of the State (usually an officer of the Greek Navy). This Committee manages the Port Fund which is credited with port revenues collected from incoming traffic and charged with expenses for construction and maintenance. In many cases, port construction has been undertaken with funds borrowed from the Bank of

Greece but the present financial situation has resulted in the cancellation of all amounts outstanding on such loans.

The port of Piraeus is administered by a Port Authority whose functions are broader than that of the Port Committees in that it actually operates and manages the port including such activities as stevedoring, etc. This authority borrowed from Hambros Bank for construction purposes.

In all cases the actual planning and execution of port works is under the supervision of the Director of Ports of the Ministry of Public Works. The letting of contracts and initiation of new work is subject to the approval of the Ministry. Construction work is carried on under the inspection of the District Engineers of the Ministry.

The Corinth Canal between the Gulfs of Corinth and Saronikos, is about 4 miles long, 70 feet wide, 26 feet deep and accommodates ships of up to 5300 tons. It shortens the voyage from the Adriatic to Piraeus by about 200 miles and consequently permits considerable savings in the cost of shipping. It is, incidentally, a source of foreign exchange since non-coastal vessels must pay tolls in foreign currency.

War Damage: War damage was suffered by many Greek ports from both Allied and Axis forces. Warehouses and other structures were bombed or mined, quay walls were blown in, breakwaters were breached, cranes and other equipment were destroyed and vessels were sunk alongside the quays and in the harbors.

The ports of Piraeus and Salonika were particularly hard hit. In the former, the breakwaters were damaged, the warehouses almost completely destroyed, the cranes and other equipment annihilated, the deepwater quays badly blown in and the harbor littered with sunken vessels. At Salonika, the breakwater was damaged, the old quays, warehouses, and equipment

destroyed and the harbor blocked with sunken ships. Strangely enough, however, the new quays which were under construction at the beginning of the war were not damaged.

At Kalamata, the damage was limited to the blowing of parts of the quays and breakwater and the destruction of the few structures and small amount of equipment which had been provided. At Patras, the damage was confined to the cargo handling crane as the explosive charges which had been set in the quays were not detonated. Other ports such as Kavalla escaped with little or practically no damage. In many cases, the lack of maintenance during the War has resulted in a silting up of the ports thus requiring dredging to restore their serviceability.

The Corinth Canal was blocked by a sunken vessel and by two bad slides set off by explosive charges. In addition, the two bridges over the canal were destroyed.

Preliminary Restoration: Since Liberation, restoration efforts have been directed principally to emergency measures which would permit a makeshift use of the port facilities for handling badly needed relief supplies. Enough sunken vessels at Piræus and Salonika have been moved to permit the entrance of ships of the Liberty class. Ships of this size can also call at Kavalla, Patras and Kalamata.

At Piræus, the British have temporarily repaired the coal wharf and are using it to receive military supplies. UNRRA has provided a few crawler cranes for handling cargo. Otherwise, practically nothing has been done to repair its damages and shipping is forced to tie up alongside damaged quays and handle cargo with its own booms. Since the warehouse space has been destroyed, cargoes are stored under tarpaulins.

At Salonika, a more concerted effort has been made with the result that the breakwater has been repaired, the quays partly restored and one

warehouse rebuilt.

At Kalamata, the breakwater has been partially repaired and considerable progress has been made in restoring the quays.

According to the Greek Government, the following amounts have been spent on this work:

Temporary repairs	\$36,000
Permanent repairs	625,000
UNRRA equipment	170,000
	<u>\$831,000</u>

In addition to the above, the Eximbank credit has been used to purchase three floating cranes, one tugboat, and a supply of wire rope at a cost of \$282,217.

Reconstruction Program: The Greek Board of Reconstruction has presented a 15-year program for the reconstruction and further development of ports and canals which, according to its estimates, involves expenditures equivalent to the following:

Stage I (first five years)	\$ 65,000,000
Stage II (second five years)	41,700,000
Stage III (third five years)	41,700,000
	<u>\$148,400,000</u>

The entire reconstruction program is included in the first stage along with considerable further development. The estimates have been reviewed in an effort to break the first stage total into these two elements with the following results:

	<u>Thousands of Dollars</u>		
	<u>Reconstruction</u>	<u>Development</u>	<u>Total</u>
Piraeus	10,360	11,050	21,410
Salonika	2,837	5,898	8,735
Patras	281	1,625	1,906
Volos	1,324	1,716	3,040
Kalamata	730	180	910
Other harbors	1,939	18,342	20,281
Floating equipment	3,590	3,590	7,180
Corinth Canal	1,538	---	---
TOTAL	<u>22,599</u>	<u>42,401</u>	<u>65,000</u>

The best approximation that can be made from available data as to the division of the foregoing estimate for reconstruction shows the following:



	<u>Thousands of Dollars</u>		
	<u>Local Cost</u>	<u>Foreign Cost</u>	<u>Total</u>
Piraeus	5,145	5,215	10,360
Salonika	1,460	1,377	2,837
Patras	100	181	281
Volos	782	542	1,324
Kalamata	512	215	730
Other harbors	1,100	839	1,939
Floating equipment	---	3,590	3,590
Corinth Canal	<u>734</u>	<u>804</u>	<u>1,538</u>
TOTAL	9,833	12,766	22,599

Although the Greek plan contemplates a five-year period for port reconstruction, it is believed that it would be possible to accomplish the necessary work in not more than three years at Piraeus or more than two years in the case of the other ports and the Corinth Canal. On this basis, it is believed that the yearly distribution of the above costs would be about as follows:

	<u>Thousands of Dollars</u>		
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
1st Year	4109	5447	9556
2nd Year	4009	5580	9589
3rd Year	<u>1715</u>	<u>1739</u>	<u>3454</u>
TOTAL	9833	12,766	22,599

As nearly as can be ascertained, about \$10 million of the foreign costs shown above would be used for construction equipment, dock cranes, etc., and the balance for materials. No allowance has been made for foreign exchange for expenses and fees of foreign contractors. If, as recommended below, the reconstruction of the ports of Piraeus and Salonika is entrusted to foreign contractors, these additional foreign exchange costs would probably amount to about \$1,600,000.

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Conclusions: The reconstruction of the principal parts of Greece is probably the most important task to be undertaken in restoring the country's transportation facilities. The existing obstacles to prompt and efficient handling of cargoes in these ports are adding their share to the present high cost of imported articles. They will also impede and make costly the shipping of Greek exports as the country's export trade revives.

In view of the necessity of conserving both local funds and foreign exchange, the immediate program for harbor reconstruction should be limited to the restoration of essential facilities for the expeditious handling of presently foreseen cargoes and should not be confused by pre-war expansion plans. In the immediate future, attention should be focused on the restoration of the ports at Piraeus, Salonika and Volos as they suffered the greatest war damage and are the three most important ports in the country. These three projects together with the restoration of the Corinth Canal and the purchase of a minimum quantity of floating equipment would require an estimated expenditure of \$17.8 million. This amount has been included in the Mission's general reconstruction and development program.

The reconstruction of the ports of Piraeus and Salonika involves construction projects of large magnitude and these projects should be entrusted to qualified foreign contractors. The method to be employed in reconstructing the quays at Piraeus should receive careful study and the opinions of foreign engineers and contractors should be obtained.

With proper organization and management, and the imposition of equitable port charges, it should be possible to make the reconstructed facilities at Piraeus and Salonika self-liquidating. Consideration should be given to making these ports concessions to be managed by foreign experts during the period required to amortize such funds as may be assigned to their reconstruction.

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It is possible that some construction and permanent equipment required for port reconstruction can be obtained from surplus property and reparations. Agreement as to needs should be arrived at promptly and the authorities charged with administering these materials advised accordingly.

Telecommunications

Pre-war Situation: The telecommunication facilities of Greece were divided among the four following systems, each of which operated separately:

1. The Government owned telephone and telegraph network operated under the direct management of the Ministry of Posts, Telegraphs, and Telephones. This system comprised 540 main offices, 5,100 rural offices, all of the long-distance lines, 8 shore wireless stations and 16 rural wireless stations.
2. The city automatic telephone systems in the Piraeus-Athens area, and Salonika, and twenty-four provincial towns which were operated by the Hellenic Telephone Company under the supervision of the Ministry of P. T. T. pursuant to the terms of a concession granted in 1930. These systems comprised 39 exchanges serving 55,550 connections and 42,703 subscribers. The German electrical concern, Siemens and Halske, A.G. is reported to have owned 75 percent of the shares of the company with the Greek Government owning all or most of the balance.
3. Submarine cable and wireless facilities were operated by the Cable and Wireless Co., Ltd. under the supervision of the Ministry of P. T. T. pursuant to an agreement made with the Government in 1937. These facilities included 1,737

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miles of cable providing telegraphic service with the Greek islands, Alexandria and Malta and wireless equipment for international communications.

4. Radio broadcasting facilities operated by the National Institution of Broadcasting, an autonomous government organization under the supervision of the Ministries of Press and P. T. T. The facilities of this service consisted of a 15-kilowatt broadcasting station located near Athens.

War Damage: War damage to Greek telecommunication facilities has been estimated by the Board of Reconstruction at \$16,000,000. Buildings were damaged, installations destroyed and equipment and supplies looted. At the time of Liberation only 6,000 urban telephone subscribers still had service.

Preliminary Restoration: Considerable progress toward restoration has been made with the aid of the British and UNRRA. Partial service has been restored between important cities, service abroad is being maintained through one cable and two wireless channels, and the radio broadcasting station is operating at reduced capacity. British and UNRRA materials valued at about \$1,250,000 have been supplied and the Eximbank credit has been used to purchase a cable-laying ship and \$1,238,000 worth of supplies.

Reconstruction Program: The Board of Reconstruction has submitted a three-year reconstruction program for all telecommunication services involving an expenditure of \$26.7 million of which \$17.4 million would be for foreign expenditure and \$9.3 million for local costs. This program includes extensions and improvements which, while desirable, are not strictly reconstruction. In view of the estimated war damage of \$16

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million and the aid already furnished through UNRRA and Eximbank, it has been assumed, for the purposes of this report, that an immediate program of \$16.5 million will meet essential needs. It is estimated that this amount could be spent at a rate of \$5.5 million per year for three years and that \$2 million of each year's expenditures would represent foreign costs. With this reduced program, it would be essential to plan the restoration work so as to reconstruct the most important facilities.

Future Development: It is to be expected that as the Greek economy is improved there will be a need for better and expanded telecommunication facilities. The Board of Reconstruction contemplates an expansion program costing \$50 million over a 10-year period. Such a program should be initiated only after the reconstruction phase and need not be considered here. The planning of the program should be closely related to the general development plan for the country and should have the benefit of technical advice from foreign specialists experienced in this type of problem and conversant with recent advances in the art. Consideration should be given to the advisability of consolidating all telecommunication facilities into one operating system.

Mines and Industry

A separate chapter of this Report is devoted to a discussion of mines and industry in Greece and describes in detail the pre-war situation, the effect of the War, progress towards recovery, and the present position. As pointed out therein, it is difficult to assess the magnitude of needed reconstruction in these fields because of wide discrepancies between Government estimates of heavy war damages and reports from authoritative sources to the effect that productive capacity has been largely restored. Nevertheless, any program of immediate reconstruction



must unquestionably make provision for the restoration of damaged or flooded mines, the replacement of damaged or missing industrial machinery and the repair and improvement of utility services upon which the mines and industries depend. Even in those instances where war damages were not inflicted, depreciation and accrued maintenance have decreased the pre-war industrial and mining potential, further aggravating the reconstruction problem.

Reconstruction: From the best information available to the Mission, it appears that \$56 million could be used effectively in the reconstruction of Greek mines and industry during the next five years. This amount is estimated to be divided as follows:

	Million Dollars					
	Mines		Industry		Total	
	Rehab.	Maint.	Rehab.	Maint.	Rehab.	Maint.
1st Year	3	1	7	3	10	4
2nd Year	3	1	7	3	10	4
3rd Year	2	1	6	3	8	4
4th Year	2	1	4	3	6	4
5th Year	-	1	2	3	2	4
Total	10	5	26	15	26	20

The estimated distribution of the above amounts as between local and foreign costs is as follows:

	Million Dollars		
	Local	Foreign	Total
1st Year	4	10	14
2nd Year	4	10	14
3rd Year	4	8	12
4th Year	3	7	10
5th Year	1	5	6
Total	16	40	56

Development: The Mission is also of the opinion that development of new industries might warrant the investment during the next five years of \$40 million in mining and industrial enterprises and \$15 million in new



power and other utility facilities. These amounts have been included in the Mission's minimum reconstruction and development program. However, as already pointed out, the undertaking of such projects is dependent on further investigations to determine their feasibility and economic worth.

It is probable that much of the reconstruction and development relating to the fields of mining and industry can be accomplished with the financial assistance already available to Greece in the form of surplus property credits and reparations awards. Every effort should be made fully to utilize these resources.

Sound mining and industrial enterprises are, by their very nature, self-liquidating. Consequently, any financial assistance in their rehabilitation or development should be extended on a loan rather than grant basis.

Reclamation

Pre-war Situation: In order to increase agricultural production, the Greek Government initiated an extensive land reclamation program in the early 1930's. Although the program included many small developments, the principal projects were those for the drainage, flood control and irrigation of the Salonika, Serres and Drama Plains in Macedonia and the Larissa and Karditsa-Trikkala Plains in Thessaly.

The works in Macedonia were designed for the protection of 426,000 acres of land and were carried out by United States contracting firms. When work stopped in 1938, due to lack of funds, the flood control and drainage features had been virtually completed and some land on the Serres and Drama projects had been placed under irrigation. About \$35 million had been expended at that time.

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The projects in Thessaly were designed to protect 334,000 acres and were undertaken by a British contracting firm. When the war interrupted the work, the projects had been only partially completed and the work done represented an expenditure of about \$11.5 million.

War Damage: All three Macedonian projects suffered from lack of maintenance throughout the War with the result that ditches became silted and the levees were impaired. In addition, the retreating Axis forces destroyed the flood control structures of the Serres and Salonika projects and demolished the railroad and highway bridges crossing the principal drainage canals. Construction equipment and maintenance shop machine tools were either damaged or stolen.

The damage in Thessaly was not so extensive because of the incomplete status of the projects. It consisted mainly in the destruction and looting of construction equipment and machine tools. In other parts of Greece the smaller projects also suffered damage by reason of lack of maintenance and loss of construction equipment.

Preliminary Restoration: The Greek Ministry of Public Works has proceeded as best it could, with limited funds, to restore the principal reclamation works. In Macedonia efforts were concentrated on the repair of the main flood control weir of the Serres project as its damaged condition would have made it impossible to protect the reclaimed lands in the event of a serious flood. A provisional machine shop has been established at Serres and it has been possible to repair some few pieces of construction equipment which are now working on maintaining the badly silted drainage ditches.

The British contracting firm has resumed operations in Thessaly on a limited scale and has managed to place some of its construction equipment back in service.

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Funds so far made available by the Greek Government for restoration of reclamation projects have amounted to only about \$340,000. These funds have been supplemented to some extent by UNRRA equipment and by utilization of the Eximbank credit for purchases amounting to about \$1,600,000.

Reconstruction Program: The Board of Reconstruction has submitted a billion dollar program for the utilization of Greek water resources which includes a \$25 million item for restoration of damage to land improvement works. The basis of arriving at this latter figure has not been explained. A competent United States contractor has estimated that the repairs and rehabilitation of the Macedonian projects can be carried out for \$7 million. As these were the largest projects and suffered the heaviest damage, it is difficult to reconcile this estimate with that of the Board of Reconstruction.

The Mission believes that the restoration of the Salonika, Serres and Drama projects should be completed without delay in order to protect the substantial original investment. The necessary funds have been included in the Mission's reconstruction and development program. The Mission also feels that the magnitude and urgency of this work warrants its execution by a qualified foreign contracting firm.

To the extent that funds can be made available, repairs and maintenance should be continued on the other smaller projects throughout Greece.

Further Development: The development of additional agricultural lands by drainage, flood control and irrigation is one of the most promising means of improving the Greek economy and increasing food production. It offers the advantage of quick application as plans already exist for adding irrigation features to the projects in Macedonia and for

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completing the work in Thessaly. Plans have also been prepared for three projects involving 54,000 acres in Epirus. A further advantage is that in many cases projects of this type can be self-liquidating because the value of increased production exceeds the cost of construction. Such projects immediately benefit the foreign exchange position by reason of added agricultural exports and decreased food imports.

It has been estimated that 320,000 acres of land in the Macedonian projects could be placed under irrigation for about \$19 million. The works in Thessaly can probably be completed for from \$10 to \$15 million. The Epirus projects would probably cost about \$5 million. There are many other possible projects which have not been studied in as much detail and which should not be undertaken until suitable planning has been completed. In preparing its reconstruction and development program, the Mission has assumed that \$20 million might be invested in land development projects during the next five years.

The chapter on Agriculture points out the necessity of protecting land development projects by headwater control measures to prevent erosion and resultant silting. Any further development should take cognizance of this need and a portion of the available funds should be allotted to this type of work. The same chapter also stresses the need for better and more coordinated planning of land development projects. It is probable that the techniques employed in the United States could be used to advantage in Greece. The possibilities of supplying training and advice through the United States Bureau of Reclamation and the United States Soil Conservation Service should receive careful consideration.

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Housing

Pre-war Situation: The constantly expanding population of Greece prior to the War resulted in a high rate of building activity. Following the Asia Minor disaster of 1922, it was necessary to provide housing for 176,000 refugee families. This was accomplished in a period of 3 years by the construction of 136,000 new homes and the rehabilitation of 40,000 old ones. Following 1929, it is reported that the normal level of building activity resulted in the construction of 10,000 buildings a year representing an annual investment of about \$18 million.

Judged by modern standards of sanitation and comfort much of the pre-war Greek housing was inadequate. The cities in particular contained slum areas and lacked facilities for water supply and sewage. Rural dwellings were simple and in many cases crude but had the advantage of more open surroundings.

War Damage: Estimates of the war damage to homes and other buildings in Greece vary between wide limits. According to the Board of Reconstruction the damage amounted to \$575 million or 23 percent of Greece's total building wealth. Observation by members of the Mission in their visits to various sections of the country indicated that these figures are too high. The Board presents the following statistics:

	<u>Rural</u>	<u>Urban</u>	<u>Total</u>
Buildings completely destroyed	118,000	37,500	155,500
Buildings partly destroyed	<u>16,000</u>	<u>25,500</u>	<u>41,500</u>
Total	134,000	63,000	197,000

There is ample evidence throughout Greece that the restoration of homes, schools, stores and public buildings presents one of the most difficult phases of the whole reconstruction program. In countless

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instances whole villages have been destroyed. People everywhere are living in makeshift shelters under crowded conditions.

Preliminary Restoration: The initial accomplishments in rebuilding the damaged and destroyed homes of Greece have been small in comparison with the magnitude of the total problem. Funds have been extremely limited, there has been indecision as to procedure and the political insecurity has discouraged private enterprise which is essential as a supplement to governmental aid.

Immediately following Liberation, the responsibility for housing was placed with the Ministry of Agriculture which undertook a program to provide temporary shelters for the homeless. This was followed by the establishment of the Ministry of Reconstruction which approached the problem from a broader and more permanent standpoint. There is much to be commended in the way in which the Ministry has proceeded. It has realized the importance of relying on indigenous building materials and has concentrated its first efforts on augmenting their production by installing sawmills and tile factories. It has recognized the necessity of limiting government aid to a minimum and has developed a plan whereby government funds are used to construct a nucleus housing unit which will provide minimum shelter and which can later be expanded through the individual efforts of the homeowner. It has attempted to adjust government aid in accordance with need. In cases of destitution government funds are used to defray the entire cost of rebuilding or repairing a dwelling. Where the need is less evident, the Ministry furnishes needed building materials and the owner provides the labor.

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The Ministry of Reconstruction might be criticized for its propensity for city planning and other related activities at a time when the urgent need is to build roofs over people's heads. These activities are well intentioned and may be justifiable in the long run, but they have the unfortunate danger of delaying action on the part of a homeowner who has the money to rebuild his house but who hesitates to do so because he is not sure whether his street will continue to exist in the new town plan currently under study.

It is reported that as of March 31, 1947, the Greek Government had made available about \$22 million for building purposes of which \$15 million had been used for housing. UNRRA has also aided materially by importing lumber, roofing materials, etc.

Reconstruction Program: The Board of Reconstruction has submitted a five-year building program amounting to \$614 million. While the need for such a program may exist, it obviously not only exceeds the country's absorptive capacity, but also the extent to which public aid can be expected to participate.

The ultimate solution to the Greek building problem must rest with private capital and initiative. Nevertheless, there are many areas where government subsidy is essential because of the complete destitution of people from totally destroyed villages who, under the best of circumstances, have only a limited cash income. Using indigenous building materials as far as possible, these people can be housed for about \$1,000 per family. The Mission has included \$12.5 million per year in its reconstruction and development program for this purpose. Over a five-year period, this would provide 62,500 dwellings which, it is felt, should take care of the most urgent part of the housing program.

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It is estimated that not more than 20 percent of these funds need be expended abroad for materials which are non-existent or in short supply in Greece.

CHAPTER VII

INDUSTRY AND MINES

THE PRE-WAR POSITION

Industry. Up to the end of the first World War the volume of Greek industry was negligible; the country relied almost entirely upon foreign imports for its manufactured goods. While some impetus to domestic manufacturing plants was provided by shortages resulting from 1914-1913 wartime restrictions, substantial progress in industrial development was not made until the influx of nearly a million and a half refugees from Asia Minor in the 1922 Turko-Greek exchange of populations. The agricultural lands, already heavily over-populated, were unable to support such a vast increase, and it therefore became necessary to absorb many of these people into the economic life of the country through the development of new industries.

Partly responsible for the subsequent rapid growth of industry was the necessity, brought about by critical financial conditions in the 1930's, for the Government rigidly to conserve its foreign exchange by limiting or prohibiting the importation of goods which could, with encouragement, be produced locally. Under this policy heavy tariffs were imposed on imports of manufactured goods, while manufacturing machinery was allowed in duty free. Substantial loans were made for expansion and development. Thus, Greek industry prospered, although in general it remained small and inefficient, comparing very unfavorably with, for example, Italy or the smaller western European countries. While most of the plants were based on utilization of local resources and were sound, some owed their success largely to protection provided by Government controls. In size they ranged from large modern establishments to

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home industries; the output of plants employing less than 25 persons represented approximately 30 percent of the total industrial production.

It is estimated that in 1939 about 30 percent of industrial products consumed were manufactured within the country. Industrial plants (including food industries and mines) produced in that year about \$182 million worth of goods, and net earnings represented an estimated 12- $\frac{1}{2}$ percent of the total national income. Industrial production consisted of the following:

<u>Industry</u>	<u>1939 Production</u> (thousands of dollars)
Foodstuffs (inc. wine and olive oil)	70,371
Textiles	34,736
Chemical	28,115
Electric Power	11,700
Leather	8,348
Mines	7,200
Metal working	5,044
Building materials	4,652
Paper	4,487
Wood working	4,248
Tobacco	2,109
Metallurgical	563
Clothing	<u>338</u>
TOTAL	181,911

That portion of industrial production which was exported by all branches of industry (including olive oil and wine) amounted to about \$32 million, or about 18 percent of total production. Chief among industrial exports were textiles, \$1,233,000; chemicals, \$4,608,000; and minerals, \$4,320,000. Exports of olive oil amounted to \$8,232,000 and wines and spirits \$2,638,000.

A parallel program to stimulate the local production of raw



materials for industries achieved considerable success, and in 1939 only 23 percent of the total used was imported, as compared with 59 percent in 1928, a year of far lower industrial activity. It is noteworthy that raw material imports in 1939 were only 8 percent higher than in 1928, although the index of industrial production indicates a 79 percent increase in industrial output.

With the exception of foodstuffs which in an agricultural country such as Greece naturally would be of greatest importance, the textiles and chemical industries are by far the largest. Excluding foodstuffs, textiles represented in 1939 almost 30 percent and chemicals about 25 percent of industrial output.

Remarkable progress within recent years brought the Greek textile industry to its 1939 production level of \$34,736,000; it employed about 20 percent of all industrial personnel. About 40 percent of this production figure represents the manufacture of cotton yarns and textiles, and about 30 percent wool yarns and textiles. The remainder was in silk fabrics, knitted goods, jute, hemp, flax, and miscellaneous goods. From 80 to 85 percent of domestic requirements were met from local production, in addition to which some exports of certain types of products were possible, mainly to neighboring European countries. From 80 to 85 percent of raw materials requirements for the cotton industry were met from local production, as were about 75 percent for the woolen, and nearly all for the silk. Virtually all machinery for the textiles industries was English and German, almost all recently installed equipment being the product of the latter.

The principal chemical products are sulphuric acid, chemical

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fertilizers, naval stores, alcohol, dyestuffs, soap, explosives and ammunition, and olive kernel oil. Normally, an estimated 80 percent of Greek requirements for chemicals is met from local production. Of the 1939 production of \$23,115,000, \$4,600,000 worth was exported; this included \$1,610,000 in naval stores, the largest exportable surplus in this branch.

The center of Greek industrial activity is the Athens-Piraeus area, where it is estimated are located nearly half of those plants employing more than 25 persons. Statistics provided by the Federation of Greek Industries indicate the following percentage distribution (based on 1939 production) of industries of all sizes by areas:

Athens & Piraeus	45%
Macedonia	17%
Peloponnesus	11%
Aegean Islands	8%
Thessaly	5%
Crete	4%
Central Greece	4%
Thrace	3%
Ionian Islands	2%
Epirus	1%

This centralization in the Athens-Piraeus area is due to a combination of several factors: access to Piraeus port facilities and internal communications; large labor supply; electric power; freedom from high municipal, road and port taxes of other areas; and large nearby markets. Practically all of Greece's machine shops are in this vicinity, and their easy accessibility for repair work is in itself an important factor.

Power for most plants in the Athens-Piraeus area, as well as those in some other industrial districts, is obtained from central electric power systems, although most of the larger plants have their own reserve units. Within recent years industries developing their own power have usually installed fuel oil units, although heavy imports of

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coal still are required. In 1939 imports of fuel for power amounted to \$13,600,000. There is a plentiful supply of lignite in the country, but the use of this low grade fuel has never been developed to any appreciable extent.

Mines. The mineral resources of the country are extensive, but due to limited use of modern extraction methods and equipment Greek mines have never produced much. In 1938 minerals constituted less than 5 percent in value of total Greek exports. Scattered throughout the country, although generally within 10 miles of the coast, are a great variety of deposits, 1938 extraction of which included the following quantities:

Type	Tons (thousands)	Dollar Value (thousands)
Iron pyrites	224	1,032
Magnesite	178	1,002
Iron Ore	349	684
Chromium ore	42	573
Bauxite	180	540
Lignite	108	267
Nickel ore	50	233
Lead ore	15	216
Barytes	35	132
Manganese ore	7	38
Zinc ore	10	85
Mixed Sulphurous	31	79
Emery	3	59
Miscellaneous	22	31
TOTAL	1,244	5,021

In addition, 51,000 tons of furnace products, valued at \$2 million, and 229,000 tons of quarry products, valued at \$151,000, resulted in a total production of 1,524,000 tons valued at \$7,172,000. Of this total, 920,000 tons with a value of \$3,320,000 were exported.

Pre-war exports of Greek minerals depended heavily upon the German market, which bought about 35 percent of the total. Due to extremely

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uneconomic production methods, poor transportation facilities, and the location of mines in remote sections of the country, the cost of Greek minerals in general has been high and it was the urgent need of countries preparing for war that stimulated the industry.

EFFECT OF THE WAR.

Industry. Greek industry suffered heavily during the war; industrial damages amounting to Dr. 9,081,360,000, or about \$82 million, were claimed by the Government at the Paris War Reparations Conference. However, since a relatively high percentage of industry remained intact at the time of Liberation, the greater part of the claim presumably was based on losses caused by disruption to industry, and losses of materials and products.

It is estimated that military action and lack of maintenance had these effects:

	<u>Percentage of production facilities unworkable</u>
Foodstuffs	25
Textiles	35
Chemical	20
Electric Power	50
Leather	15
Metal Working	20
Building Materials	20
Paper & Printing	20
Wood Working	30
Tobacco	10
Metallurgical	30
Clothing	30

Even though most facilities were intact, factories were effectively stopped by the complete lack of raw materials and transportation facilities, and the partial destruction of power units. Workers were scattered; skills had been lost by years of idleness; and worker inefficiency, patriotic during occupation, was hard to throw off. Credit was

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unobtainable in an inflationary economy.

Mines. It is estimated that up to 50 percent of mining facilities were unworkable because of flooding, collapse and destruction of equipment. Chromium and bauxite mines were particularly hard hit. While there are no detailed statistics as to the specific damage done, the Greeks asked reparations of Dr. 2,023,894,000, or about \$18 million, for damages.

PROGRESS TOWARDS RECOVERY.

Industry. In retrospect Greece's problem of industrial recovery is made misleadingly encouraging by the high proportion of intact manufacturing plants at Liberation in October 1944. There were problems of raw materials, equipment, transport, labor and finance. Political and economic instability during 1945, disputes between industry and Government, and the inability of the Government to carry out an effective program precluded any appreciable progress towards industrial recovery during that year.

Most of the industrial plants soon were restored to workable condition. Complete statistics as to the percentage now intact are unavailable, but even in early 1945 in a survey conducted by UNRRA, 1266 manufacturers reported that 91.3 percent of their buildings were still intact or serviceable after small repairs, and that 88.3 percent of their machinery was in operating condition either immediately or following minor repairs. These statistics, provided by the manufacturers themselves who would not minimize the extent of damages, differ sharply from the Government's reports absorbed by the people that Greek industries are virtually destroyed. Combined estimates by

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various authorities of present productive facilities present an only slightly less healthy picture:

	(Percent of 1939)
Foodstuffs	90
Textiles	75
Chemical	85
Electric Power	80
Leather	90
Metal Working	85
Building Materials	85
Paper & Printing	80
Woodworking	80
Tobacco	100
Metallurgical	75
Clothing	80

The drachma assets of industrialists had been wiped out by war and inflation, and most of them refused to convert their local real assets or foreign assets into funds for reconstruction. Bank credit was unobtainable. For this reason the Government found it necessary to make industrial loans of about \$23 million during 1945 and 1946.

Imports of industrial items have been largely through UNRRA. In 1945 it imported only 15,000 metric tons of raw materials, but by January 20, 1947, this had risen to 40,415. A breakdown by types, value, or branch of industry is not available.

While the marked improvement in transportation facilities has aided in industrial recovery, transportation still remains a limiting factor in industrial production.

Imported raw materials are normally distributed to various industries under a plan designed to assure fabrication of goods at reasonable prices. While controls of this nature are obviously necessary until the economy is more stabilized, indications are that some types of industry have held down their production because of ceilings that denied them

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the profit which they demand.

Some progress was made during 1945 in the rehabilitation of industry and it is estimated that by the end of that year production had reached about one-third the 1939 level. With increased imports of raw materials and industrial equipment, increased domestic resources, and greater stability of the currency, it is estimated that 51.2 percent of the 1939 level of production was reached in 1946. Statistics compiled by the Federation of Greek Industries indicate that for that year production in the various categories reached the following percentages based on the 1939 level:

	<u>Percent</u>
Foodstuffs	69
Textiles	57.5
Chemicals	42.3
Electric Power	70.7
Leather	23.8
Metal Working	20.5
Building Materials	39.3
Paper & Printing	47.5
Woodworking	17.7
Tobacco	105.9
Metallurgical	20.8
Clothing	50

The foregoing figures represent the production of the entire year; the monthly level reached during the latter part of 1946 averaged over 60% of 1939.

An important factor in increased productivity has been the repair of electric power establishments. In the Athens-Piraeus area production of electricity is substantially over the 1939 level. Retarded progress in other areas, however, brought the average for 1946 to only 70.7 percent of 1939. Although in the provinces the problem has been more acute, it has not greatly affected production. Salonica and Voles in particular

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have suffered from lack of power. It is significant that motive power in plants not using electricity continues to be obtained almost entirely through large imports of coal and fuel oil, rather than through increased development of lignite resources of the country.

A heavy burden upon industry was continuation of the war-time law prohibiting dismissal of workers except with the approval of the Government, which it is understood was given in very few instances. Aside from the burden of overstaffed plants, productivity by individuals had been reduced tremendously through lack of competitive incentive. This law, however, has now been modified so that this serious problem has been largely overcome. While average productivity has not reached a pre-war level, which itself was never high, a recent UNRRA survey in the Athens-Piraeus area disclosed employment was at 81 percent of 1939 while production was at 59.3 percent. This apparently low productivity is explained in part by the fact that artisans are fewer in number than before the war and as a result industry is conducting a training program which is an offsetting factor.

Statistics provided by the Greek Federation of Labor indicate that industrial labor employment in June 1946 totaled 101,000 as compared with 140,000 in December 1939. As an anti-inflationary measure, an effort has been made by the Government, with practically no success, to stabilize wages. An UNRRA survey indicated that in terms of real wages civil servants and workers in industry and commerce receive about 77 percent of their pre-war wages. Workers in industry are believed to average almost 100 percent, and in some cases much higher.

Mines. UNRRA estimates that productive capacity of mines has been raised from 50 percent at Liberation to 75 percent now, but statistics

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provided by the Federation of Greek Industries indicate that the mining industry, excluding lignite, at the end of 1946 had reached a monthly production level representing only 17 percent of pre-war, and that lignite production was at approximately 30 percent of pre-war.

The principal mining activities since the war have been two pyrite mines, two chromite mines, one sulphur mine and one magnesite mine. Although a great demand for fuel exists in the country, the production of lignite for the entire year was less than half the pre-war output.

THE PRESENT POSITION.

Industry. While Greek industry has grown remarkably since 1922, it still remains a minor part of the economy, producing mainly for local consumption. Of a population of 7,500,000 people, only 101,000 are now engaged in manufacturing (pre-war 140,000). Less than 8 percent of the population are dependent directly upon industry for their living; on the other hand, from 60 to 65 percent of Greece's population is dependent upon agriculture. Excluding ores, industrial production constituted only about $4\frac{1}{2}$ percent of Greek exports in 1938.

Although the war had a devastating effect upon industry, a relatively large percentage of industrial plants are in working order; estimates run as high as 91.3 percent for buildings and 38.3 percent for machinery. Depreciation of machinery, however, and the inability thus far to obtain adequate replacements may have somewhat reduced this percentage within recent months.

Production is only 51.2 percent of 1939. Excluding foodstuffs and mining, it is estimated that nearly half the present industrial activity is in textiles, which has reached 57.5 percent of pre-war production.

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The slow progress in industrial recovery is due to a number of factors, the most important of which are:

- 1) Insecurity. There is a definite reluctance on the part of industrialists to invest under the present unstable conditions. This is particularly true with respect to those industries, investment in which must be amortized over a long period of years. The too common tendency of industrialists is to convert their liquid assets into gold or foreign exchange for hoarding purposes, and until the threat of political upheaval or economic breakdown is removed, there is little possibility that this tendency will be overcome.
- 2) Financial. Many industries which otherwise would under present circumstances extend their production are handicapped by the lack of funds, especially foreign exchange for the procurement of raw materials and replacement items, as well as local currency for repairs, maintenance and expansion. The high interest rates charged for industrial loans make it difficult for industries economically to borrow. Moreover, within recent months industrial loans have been granted by the Bank of Greece only in exceptional cases and at a rate less than half that prior to November 1946. The liberal lending policy was abolished in November upon the recommendation of the Currency Committee, mainly because of the strong suspicion that much of the money obtained was not being used for productive purposes but was being invested in gold for hoarding. Purchases of gold from the Bank of Greece fell off considerably

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following this decision.

- 3) Shortage of Motive Power. Electric power production in Greece as a whole has reached only 70.7 percent of prewar and the resulting shortage has established a limitation upon production of many industries, particularly in the provinces. The destruction of power units in those industries using coal and fuel oil has somewhat impeded progress in view of the difficulty of obtaining replacements. Limited import of fuel is in itself an important factor.
- 4) Inability to Obtain Spare Parts for Foreign Machinery. In the years just prior to the War much of the industrial machinery imported by Greece was from Germany or other European countries from which spare parts cannot now be obtained. This difficulty has particularly affected the textiles industry in which a considerable number of machines are effectively stopped for lack of parts.
- 5) Transportation. The inadequacy of transportation facilities has to some extent impeded the distribution of raw materials as well as the shipment of finished products, and adds considerably to the cost of production.
- 6) High Cost of Production. Several industries have potentials much higher than their present output and are otherwise prepared to produce for export, but the high cost of their products limits demands. Internal costs of labor, raw materials and transportation have placed many Greek products in a disadvantageous position vis-a-vis imported goods for local consumption and

the unrealistic exchange rate between the drachma and foreign currencies has retarded exports.

7) Lack of Funds for Reconstruction. Some industries, such as buildings materials, are now prepared to produce much larger quantities but, due to the lack of private and public funds for reconstruction, orders have been very limited.

Mines. Although about 75 percent of the mining facilities are in operating condition, the present rate of production of all mines, excluding lignite, is about 17 percent of pre-war; lignite mines are now producing at the rate of 30 percent of pre-war. Aside from the damage to facilities and equipment, other main impediments to increased production are:

- 1) Insecurity. Miners, like other industrialists, have been reluctant to invest in reconstruction and development under the present political and economic conditions.
- 2) High Cost of Products. A combination of factors such as primitive extraction methods, high wages and transportation costs, and the unrealistic exchange rate of the drachma have placed the cost of Greek ores considerably above the world market. Since practically all Greek ores are extracted for export, miners obviously have little interest in expanding production.
- 3) Loss of Markets. The main importers of Greek minerals before the war were Germany and other European countries which were then willing to pay the high prices demanded. The loss of these markets has been serious.

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4) Transportation. The shortage of transportation has made it impossible for many mines to produce at the pre-war level.

5) Finance. Although finance has in general not been a limiting factor in the mining industry, some operators have suffered from the lack of funds. The primary recipients of Government loans made for mining have been producers of lignite. (The results of lignite development, however, have been very unsatisfactory due to the high cost of production and the low calorific value of the mineral.)

Ores are processed in Greece only to an infinitesimal extent, and practically all requirements of refined metals are imported. Lack of local power accounts for the failure to expand the metallurgical industry.

Development Possibilities. In view of the territorial limitations upon agricultural development, expansion of industry is necessary if the country is to achieve a balanced economy. Industrial expansion appreciably beyond the 1939 level, however, depends largely on new and cheaper power facilities, which ideally should be through hydro-electric projects and the development of the use of lignite, as well as planned utilization of the country's natural resources.

Greece's greatest potential source of wealth is her minerals. With the installation of modern extraction methods, reduction of internal costs, improvement of transportation facilities and the establishment of metallurgical plants, this phase of industry could revolutionize the Greek economy. Development of lignite mining and the establishment of processing plants might very substantially reduce the heavy drain upon foreign exchange resources now caused by the importation of practically

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all fuel. Lignite is a fuel which could compete in cost with imported coal and oil.

Another important possibility for industrial expansion is in the agricultural processing industry. Although Greece is a large producer and exporter of agricultural products, there are comparatively few processing industries in the country. By locating such plants throughout the country, unemployed rural workers could apply their efforts to useful and lucrative purposes. Establishment of refrigeration plants would also aid greatly the distribution of perishable agricultural goods, and would permit a more even flow of food to the market.

At the request of the Greek Government, UNRRA has undertaken an extensive survey of Greek industrial potentialities with a view to expanding those phases which have the greatest possibility of developing the Greek economy to a completely self-sustaining basis. While details of the conclusions formulated as a result of these studies are unfortunately not yet available, it is understood that they indicate encouraging possibilities for the development of Greek resources and creation of industries based upon utilization of such resources. It is believed that the findings of the group of specialists engaged in this work will provide an excellent framework for planning industrial expansion.

While there is general recognition in the Greek Government of the importance of industry and mining to the Greek economy, there is no adequate Governmental body to plan orderly development. With the termination of UNRRA, there is a danger that the value of their studies will be dissipated unless the continuing work is incorporated into an agency of the Government itself.

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Greece's share of German reparations in industrial plants and equipment amounts to about $6\frac{1}{2}$ percent of items to be distributed, and could play an important part in the development program, provided utilization is planned in conjunction with, and fitted into the general pattern of, an over-all program. It is obvious, however, that industries thus acquired will require considerable capital for their renovation, transportation, installation and operation. The lack of investment or public funds in Greece for this purpose provides a definite limitation upon appreciation of reparations unless foreign capital is made available.

RECOMMENDATIONS

Several of the greatest deterrents to industrial recovery - insecurity, inadequate transportation and power, and shortages of foreign exchange - are matters covered elsewhere in this report. Their correction will automatically help industry. The extent to which foreign funds are recommended for industrial recovery and development is outlined in the section entitled "Reconstruction and Development". Recommendations dealing with other aspects follow:

A. Recovery.

1. Credit to industries for current operations should be granted by the Greek Government where the need is clearly demonstrated; all enterprises granted credit should be closely observed to ensure proper use of the credit; industries which have misused past credits should not be granted further credit.
2. The present high cost of production should be reduced by every practicable means, including:

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- (a) Removal of the antiquated road and community taxes now being levied;
 - (b) Correction of the abuse of Government granted monopolies and subsidies; and
 - (c) Measures to reduce the number of unneeded employees and raise labor productivity.
3. Granting of import licenses and foreign exchange should be carefully supervised for the benefit of the whole industrial economy.
- (a) Import licenses for raw materials should be conditioned upon undertakings to sell the fabricated goods within an established level.
 - (b) Raw materials should be imported in preference to finished goods, if the goods can economically be manufactured in the country.

B. Development.

1. Greece's industry must be developed if she is to support herself. A development program should utilize local resources and foster industries using these resources. Mining - the country's greatest undeveloped asset, lignite extraction - a remedy for the present fuel deficiency, metallurgical industries and agricultural processing industries are foremost possibilities which should be explored.
2. Planning and supervision of industrial development should be centralized in an "Industrial Development Agency", with the following responsibilities:

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- (a) Formulating the industrial development and expansion program.
 - (b) Arranging for technical studies of specific projects.
 - (c) Reviewing applications for industrial development and expansion loans by the Bank of Greece to ascertain that the proposed projects fall within the general program.
 - (d) Preparing applications and supporting statements for foreign loans for industrial rehabilitation and expansion.
 - (e) Establishing procedure and methods for undertaking new industries.
 - (f) Acting as liaison with the Greek Delegation at the Inter-Allied Reparations Agency in obtaining for Greece her share of industrial plants and equipment under the German de-industrialization plan.
 - (g) Planning effective utilization of reparations items in individual industries, including sales to approved industries on credit, collateral for which could be an equity in such industries until the obligation is discharged.
3. The Agency functioning under the Minister of National Economy might have (a) a Board including a representative of the American Recovery Mission, (b) a Director

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- General, (c) a planning group including several of the UNRRA personnel now engaged in industrial development studies, and (d) foreign technical advisors employed to study the economic advisability and technical suitability of individual projects.
4. Credits should be granted by the Government for the development of industries if the industries come within the plans of and are approved by the Industrial Development Agency. Industries granted credit should be closely observed to assure proper use of the credit.
 5. Plants and equipment acquired as reparations from Germany should be used to the maximum, but before any are chosen competent technical advisors, preferably American, should survey their suitability for conditions in Greece.

CHAPTER VIII

AGRICULTURE, FOOD AND FISHING

A. AGRICULTURE

Agriculture is still the dominant feature of the Greek economy. Of the total population of Greece, 60% to 65% are dependent upon agriculture for a livelihood. A substantial part of the national income is derived from this source and 70% of the exports are agricultural.

The agriculture of Greece was studied by an outstanding group of agriculturists for the Food and Agriculture Organization of the United Nations in 1946. Their report, published in March 1947, in addition to making many recommendations, discusses the utilization of water, measures to improve technical agriculture, crops, soils, feed and livestock, seed, education, government programs, cooperatives, credit, fisheries and development. Since the FAO Report deals extensively with long-term programs, the concern of the American Economic Mission was largely confined to measures which might be undertaken in the immediate future for increasing agriculture's contribution to Greek recovery.

PREWAR AGRICULTURE

The total area of the country is 50,000 square miles, of which only 20% is arable. It is a mountainous country in which there are few sizable plains. The mountainous territory includes many small plots suitable for olive trees and grain crops; but most of this area is suitable only for the grazing of sheep and goats or for forestry. While the arable area is not extensive, some of it is fertile agricultural land suited for the growing of valuable crops such as tobacco, grapes and olives. The productivity of the cultivated land has deteriorated because of the lack

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of proper conservation practices and the hills, whose cover has been removed by overgrazing, burning or fuel cutting, are being damaged by erosion. Lack of water during the summer months is a deterrent to production of crops which grow in this season. While there is considerable rainfall during the winter months, there is a general scarcity of moisture during the growing period. In many sections rainfall is supplemented by irrigation, the water being obtained from underground sources with small power or animal driven pumps, and to a small extent from the impoundment of surface waters.

Land holdings in Southern Greece have always been small and this tendency was given added impetus in Northern Greece by the land reforms of the Twenties. Over two-thirds of the holdings are less than 7.5 acres in size. Farmers live in villages, going out each day to their fields, and, since they often have several small plots at a distance from each other, much of the day is wasted in commuting. Most of the work is done with the same equipment and methods that have been used for centuries. Modern machinery is uncommon - there were only 1600 tractors in all of Greece before the war - and inefficient use of manpower is the rule.

Even the available agricultural facilities are not used to the best advantage. Cultural practices in Greece have not been such as to maintain soil fertility. Improper crop rotation has resulted in depletion of fertility and overgrazing in the mountain areas by small animals has resulted in extensive erosion. Only small quantities of manure are available for cultivated crops because of the small number of farm animals and the fact that animals spend most of the time in pastures. The use of

substantial amounts of fertilizers only began in the Thirties.

The poor soil, small farms and primitive techniques all result in very low farm incomes. Before the war the gross average income, including the value of food consumed, did not exceed \$300 per farm. In addition, many of the farmers depended upon a single cash crop, whose failure faced them with starvation; this was particularly true in the tobacco regions.

Two-thirds of the cultivated area of Greece is devoted to cereals, over half of this being wheat and the remainder predominately barley and corn. In spite of the large acreage devoted to cereals, Greece has never been able to produce ever her domestic requirements. Concern over this deficiency before the war led to a government subsidy program which raised cereal production from 38% to 64% of domestic consumption, by shifting acreage from other crops to cereal production. By world standards the cereal yield per acre is low in Greece.

Distribution of Total Cultivated Area by Crops
 1938

Crops	Area		Percent of Total
	Stremma	Acres	
Cereals	16,066	3,970	66.7
Pulses	843	208	3.5
Potatoes	224	55	.9
Fresh Vegetables	677	167	2.8
Tobacco	842	208	3.5
Cotton	686	170	2.8
Sesame	348	86	1.5
Vineyards	1,852	458	7.7
Currants & Raisins	797	197	3.3
Other Crops	1,761	435	7.3
Total	24,096	5,954	100

Source: UNRRA Greece Mission

The main industrial crops are tobacco and cotton. Less than 4% of the cultivated land is devoted to tobacco, and yet by value 15% of the total production and over 45% of the total exports of the country come

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from it. A substantial quantity of the high-grade Turkish or Oriental types of tobacco used in American cigarettes comes from Greece; before the war the non-American types of tobacco found their most important market in Central Europe. Cotton, on the other hand, derives its importance from domestic uses. Greece has long been striving for self-sufficiency and her relatively large textile industry now receives 80% of its cotton from the domestic crop.

As usual in the agriculture of Mediterranean countries, olives and grapes have an important place in Greece. With its more than 60,000,000 olive trees, Greece is surpassed in the production of olive oil only by Italy and Spain. Olive oil production averages about 100,000 tons per year, most of which is used domestically since it is one of the staple foods of the country; it is, however, an important export. Grapes are grown in all parts of the country and their uses are many. Over half of them go into the making of wine and others are marketed as currants, raisins and table grapes. There are some fine Greek wines, but most of them are undistinguished and only about 20% are exported. Currants (a type of dried grape), on the other hand, are second only to tobacco as an export. Table grapes are extensively used within the country and are a potential commodity for export to Western Europe.

The production of other fruits does not compare in importance with those already mentioned. Citrus fruits are grown in the southern and central parts of Greece, and though they have some possibilities for export, the present low production and lack of standardization in quality will restrict exports during the near future. The quality and quantity of peaches, pears, apples, apricots, cherries and plums are only adequate

for domestic consumption.

In contrast with countries further to the North, where cattle are common, sheep and goats in Greece are the primary sources of milk, meat and hides, and comprise about 75% of the livestock of the country. Cattle are found largely around centers of population where they are used for dairy purposes; relatively few are kept for beef purposes. While the major part of the limited meat and dairy products consumed in Greece is from sheep and goats this element in the diet is small by American standards. Greece has never met its own meat requirements from domestic production.

The draft power in Greece is primarily animal. In areas of small farms and of rough, steep terrain the use of tractors is impractical, although in the plains machinery can be employed. Horses, mules and donkeys are generally small and used for both draft and pack purposes, the smaller animals being better suited to the mountainous areas and meager pastures. The use of water buffaloes and oxen is common in Northern Greece.

POSTWAR AGRICULTURE

The production of foodstuffs reached an all-time high just before the War as a result of the government campaign to make the country self-sufficient in food. Approximately 1,000,000 tons of wheat were produced in 1938 and again in 1939; figures on livestock rose to 1,000,000 cattle, 8,000,000 sheep, 4,000,000 goats and 12,000,000 chickens. Production fell off sharply during the war. Laborers were mobilized, draft animals were commandeered, livestock was slaughtered, seed became scarce, and incentive to work was gone. By 1942 wheat production was below 300,000

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tons and by 1944 livestock in some areas had dropped to 40% of prewar for cattle, 30% for sheep and goats, and 20% for hogs. Before the war was over Greece had suffered famine.

Agriculture has revived more rapidly than almost any other segment of the Greek economy. In his farming operations, the farmer has been less affected by the prevailing insecurity and commercial stagnation than is the city dweller. Added to this is the important fact that UNRRA has contributed over \$50 millions to the country for agricultural rehabilitation. This has been in the form of seeds, fertilizer, tractors, animal draft power, farm machinery and livestock.

Production in 1945 barely exceeded 50% of prewar. Acreage was down 25% and a low per acre yield was caused by drought and other factors; there was a lack of machinery and draft power, livestock, seed, fertilizers and pesticides. The yields per acre of cereal grains was only 64% of the 1935-1938 average. Tobacco, needing little rain and no fertilizer, was the only crop whose yield equaled that of prewar days, but the normal market for the tobacco was gone.

During 1946, agricultural production reached 85% to 90% of prewar. UNRRA shipments had arrived in large quantities and the weather conditions had been unusually favorable. The yield per acre of cereal grain was 106% of prewar and those of pulses, potatoes and dried fruit were above the prewar average.



Cultivated Area, Yield and Harvest Crops
Average Pre-war, 1945 & 1946 Estimates with Comparisons
(Thousand Hectares, Quintals per Hectare, and Thousand Metric Tons)

CROPS	Average 1935-1938		1945		1946		1945 as Percent of Pre-war		1946 as Percent of Pre-war	
	Area:	Yield: Crop:	Area:	Yield: Crop:	Area:	Yield: Crop:	Area:	Yield: Crop:	Area:	Yield: Crop:
Cereals:										
Wheat:...	850	9.0	768	6.0	393	765	9.8	750	77	67
Rye	70	8.1	56	5.5	24	55	9.1	50	63	68
Barley ..	210	9.5	203	5.5	75	162	9.9	160	65	57
Oats	142	8.5	120	5.0	54	106	7.5	80	59	37
Meslin ..	56	7.3	41	4.4	19	47	10.6	50	77	45
Maize ..	259	9.7	250	6.3	130	264	7.0	193	80	65
Rice ...	4	2.4	9	2.7	3	2	3.0	6	25	113
Total Cereals	1591	9.1	1447	5.8	698	1401	9.6	1239	75	64
Pulses	64	8.1	52	4.4	32	69	7.2	50	113	54
Potatoes	21	69.5	146	61.1	116	21	72.8	153	90	88
Sesame Seed	35	2.6	9	1.8	2	12	2.5	3	31	69
Cotton (un- ginned weight)	62	7.1	44	7.2	21	52	6.1	32	17	101
Tobacco	93	6.6	61	5.2	24	68	4.8	33	50	70
Olive Oil			113		100			90	89	39
Dried Fruits	75	25.5	191	10.0	60	77	9.8	76	80	39
Olives			40		25			30	31	31
Fruits & wine										
Grapes	190	23	450	20.0	320	180	29	400	93	87
Total	2131	23.3	2353	16.4	1398	1880	2106	75	55	88

One hectare equals 2.471 acres. One quintal equals 220.46 pounds. Figures are for harvest years
Source: UNRRA estimates of July 1946 revised on basis of final production figures.

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During the occupation the number of livestock was reduced to about 60% of prewar: meat animals were indiscriminately slaughtered for use by the armies; the better draft and pack animals were requisitioned for military uses; many animals were wantonly destroyed upon withdrawal of the enemy; and lack of food and care materially affected the reproduction rate. Since liberation there has been a material increase in livestock, particularly among the smaller animals such as sheep, goats and donkeys, and it is expected that the smaller animals will reach prewar levels by 1948. In spite of the importation of 75,000 head of horses, mules and cattle, their numbers will climb less rapidly because of the lower rate of natural reproduction.

Livestock Numbers
 1945 and 1946 Compared with Prewar

	Number (1000 head)			Percent of 1938	
	1938	1945	1946	1945	1946
Horses	364	199	210	55	58
Mules	184	91	115	49	62
Cattle	967	578	600	60	62
Milch cows	411	242	252	59	61
Draft Oxen	342	236	240	69	70
Other	214	100	108	47	50
Sheep	8,139	5,827	6,000	72	74
Goats	4,356	2,868	3,130	66	70
Hogs	430	376	400	87	93
Donkeys	404	313	325	77	80
Water Buffalo	67	47	56	70	84
Poultry	11,945	8,829	7,500	74	63

Source: UNRRA Greece Mission and United States
 Embassy reports

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Total Imports of Livestock by UNRRA

	to Feb. 1 1947	Anticipated to end of program	Total
Horses	23,000	6,000	29,000
Mules	35,000	---	35,000
Cattle	4,100	600	4,700
Donkeys	6,800	---	6,800
Poultry	1,000	---	1,000

Source: UNRRA Greece Mission

D. THE FUTURE

While agricultural production in 1946 is attributable in large part to excellent weather, agriculture is in a relatively favorable position compared to industry, whose production is only about 60% of prewar, and other aspects of the economy which have made even less recovery. Agriculture has immediate needs and these should be met with dispatch because of the basic position of agriculture in the whole Greek economy. However, the fundamental needs of agriculture are of a long-term nature. It is generally agreed that these are (1) the greater utilization of available water through drainage and irrigation projects; (2) the increase of the volume of output per farm family through (a) bringing more land under cultivation, (b) raising acreage per family; (c) shifting to intensive crops, (d) improving crop and livestock growing techniques and extending use of machinery. The FAO Report recommends a gradual shifting of the excess farm population to non-farm pursuits. In the chapter on Reconstruction and Development we have proposed the restoration of flood control, drainage and irrigation works in the Salonika, Serres and Drama plains as the first immediate step in a longer term program.

There are other measures which will contribute more immediately to

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the recovery of agriculture. Care must be taken that the policies pursued in the next few years are consistent with the long-term measures mentioned above.

(1) Transportation. First among these immediate measures is the improvement of the damaged transportation facilities which impair transport of farm products to the areas where they are needed, or contribute to the high costs which make competition in world markets difficult. If the roads, railroads and harbors of the country are reconstructed along the lines suggested in the chapter on Reconstruction and Development, this problem will be materially alleviated.

(2) Exports. Before the war, Central European countries were important markets for Greek agricultural products, particularly tobacco, and until trade is reestablished in these countries improvement of production of export commodities within Greece will not contribute substantially to recovery. This is a part of a larger problem more fully discussed in the chapter on Exports, Imports and Balance of Payments.

(3) Credit. Ample supplies of credit at low interest rates are essential to farmers and agricultural processors. Credit to farmers in Greece is supplied by the Agricultural Bank, a government institution. The Bank extends the credit either directly to the individual or through the village cooperative. Loans for the financing of crops are of a short-term nature, while longer term loans are made for the purchase of livestock, equipment, building materials and land. Interest rates vary with the region, time and type of loan from about 6% to 8.5%.

The extension of farm credit has been and will continue to be a function of the Government. Farmers are without operating capital and

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their need for seed, feed, fertilizer and equipment is still accentuated by the abnormal period through which they have just passed.

(4) Cooperatives. The village cooperatives, the cooperative unions and the Agricultural Bank constitute together one of the most effective forces in present-day Greece. Cooperatives are to be found in almost every village and these 7000 village cooperatives are joined into regional and national cooperative unions which represent about 50% of the farmers of the country. The primary function of the cooperatives is the extension of credit obtained from the Agricultural Bank, but some of them also procure supplies, such as foodstuffs, clothing and automobile tires for their members; since the war they have assisted UNFRA in the sale and distribution of relief supplies, and some of them provide crop processing facilities for their members.

Cooperatives are a basic need in a country where most farms are small, and the Greek Government has recognized this need by consistently encouraging the cooperatives. For example, it has made foreign exchange and preferential import duties available for imports by cooperatives. Unfortunately, a lack of continuity in planning has often resulted in this Government help not being fully effectual.

In general it may be said that (a) the Government should aid the cooperatives without trying to completely dominate them; (b) they should be continued as the agency which makes individual loans to farmers; (c) a system should be worked out which enables the local cooperatives to control the central cooperative organizations, and (d) their functions should be increased and strengthened wherever feasible. The FAO Report has presented detailed recommendations for the strengthening of cooperatives.

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(5) Rehabilitation. While some of the short-term needs of Greek agriculture can be met by vigorous efforts of the Greeks themselves, there are others which can only be solved by outside financial assistance. The physical facilities of agriculture have suffered greatly during the war: machinery and equipment have been destroyed; draft power has been requisitioned by the armed forces; irrigation and drainage works have been destroyed or fallen into disrepair; and farm buildings have been razed. Almost all farmers find themselves after five years of war without the funds to remedy these defects.

(a) There has never been a large amount of modern farm machinery in Greece, but what little there was disappeared almost completely during the war. Some of this has been replaced by UNRRA and additional machinery should be supplied where the need has been determined. There is an obvious need for the replenishment of the stocks of small equipment such as ploughs, spray equipment, pruning tools, cultivation tools, and pumping machinery, which constitute basic equipment of Greek farming.

(b) Seed. The immediate seed requirements and the establishment of facilities for the domestic production of seed should be given attention. Prior to the War farmers usually followed the unsatisfactory practice of continual use of a part of the previous year's crop as seed. Since the War, UNRRA has imported over 45,000 tons of seed into the country. Importation of seed may have to be continued during this emergency period, but the annual expenditure of approximately \$5,000,000 in foreign exchange should not be continued indefinitely. The Greek climate is well adapted to seed production, and since the War a small program on seed potatoes and alfalfa seed has been started. A program to make Greece self-

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sufficient in the production of seed should be developed.

(c) Agricultural processing. The plants for the processing of agricultural products must be rehabilitated and improved if the agricultural crops are to be made salable. At the end of the War many of the dried fruit sterilization plants, olive-oil presses, cotton gins and tobacco warehouses were unfit for use because of war damage, neglect and obsolescence; only partial repairs have been possible with the funds available from the Agricultural Bank. At the present time the olive oil presses of the country have a capacity of less than half of that required for the processing of an average crop, and the delay caused by this inadequacy in processing will materially affect the quality of the oil. Similarly, there are facilities for the canning of only about 4500 tons of food per year, or 1% of the normal crop of fruits and vegetables. The holding of fresh fruits and vegetables for the short period before they are marketed is handicapped by the lack of storage facilities.

While the temporary disappearance of Central European markets and the desirability of shift in emphasis in Greek agriculture will have to be carefully considered in selecting the processing facilities to be rehabilitated, the work on these processing plants should be initiated as soon as possible to enable the Greeks to properly process and market their produce.

(4) Irrigation. In addition to the large-scale irrigation and drainage products discussed in the chapter on Reconstruction and Development, there are smaller improvements of this general nature which can be carried on throughout the whole country. Pumping equipment on individual farms is in need of replacement; small irrigation ditches and equipment require material and work to restore their efficiency; and other facilities for

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making use of surface and underground waters must be repaired.

Development

The scarcity of cultivable land in Greece makes the improvement of the present arable land and the development of additional land for agricultural purposes a problem of major importance in the recovery of the country. In addition to the restoration and expansion of the flood control, drainage and irrigation works in the Salonika, Serres and Drama plains which were undertaken and in partial operation prior to the War, the American Recovery Mission should consider development of similar projects in other sections of Greece.

In addition to the flood plain planning, there is considerable collateral planning to be done. Lack of this in the Salonika, Serres and Drama projects has illustrated such a need. These projects were undertaken and largely completed before any consideration was given to the importance of protecting the canals and drainage ditches against resilt- ing and damage caused by erosion and rapid runoff in the headwater areas of the tributary streams. Along with the reconstruction and development plans there must be a careful consideration of the proper utilization of the land in the tributary areas in order to reduce the floods and erosion. This presents difficulties at the present time in the case of those streams arising in Bulgaria, Yugoslavia and Albania, but the resilt- ing of the other streams of the country can be provided against now.

The preliminary planning should include the economic utilization of the land to be reclaimed. Scientific studies of crops and other uses and treatment of the land should be undertaken to insure that the proper crops are grown on the land. Future benefits to be derived from a project should

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be carefully compared with the costs of the project before it is started. In many cases such analysis has been inadequate in Greece.

Rapid and effective planning and initiation of large-scale land conservation projects will require the reorganization of Government agencies presently responsible for these functions. The Ministry of Public Works is now responsible for the large-scale watershed developments which are paid for with public funds, while the Ministry of Agriculture has responsibility for the same type of work which is done on a smaller scale (2500 to 5000 acres of land) and financed partially with public and partially with private funds. This distinction, whatever may have been its original justification, will impede quick action on a large program and give no assurance that the many small projects are coordinated as a part of the extensive project for the entire area.

FOOD

Pre-War Position

During the pre-war period, 1935 to 1938, the total annual consumption of food in Greece amounted to over 3.4 million tons. About 600 thousand tons of the total consumption was imported, including all of the sugar, coffee and tea, about one-half of the wheat and fish and almost one-fourth of the pulses and meat. Most of the food imports were necessities, while the exports, in the countries to which they were exported, were semi-luxury products such as dried and fresh fruits, olives and olive oil, and nuts.

The average annual per capita consumption of food during the 1935-1938 period amounted to approximately 435 kilograms (957 pounds). This was equivalent to a daily ration of about 2,500 calories including 65 grams

of protein. In general, the major items in diet were bread and olive oil, supplemented to a small extent by butter and suet from sheep and goats of the country. By far the greatest source of protein and calories in the Greek diet was cereal grains, accounting for nearly 70 percent of the total protein and over 50 percent of the total calories. The per capita consumption of wheat was over 300 pounds and that of olive oil was over 30 pounds. In addition to the above constants, the Greek diet also included vegetables and fruits in season, sheep and goat milk and cheeses and wine.

The following table was used by the Mission in cooperation with the Greek Government and UNRRA in computing the food needs of the country in preparation of the balance of payments:

Estimated Consumption of Foodstuffs
Four Year Average 1935 - 1938

Foodstuffs	National	Per capita	Per Capita	Per Capita
	annual	annual	calories	protein
	consumption	consumption	per day	per day
	(000 metric tons)	Kilograms (2.2046 pounds)	Calories	Grams
Wheat	855	122.6	1162	36.8
Corn	89	12.8	117	3.2
Barley	10	1.4	14	.4
Rye	33	4.5	40	1.0
Meslin, millet & rice	31	4.4	42	.8
Total grain	(1018)	(145.7)	(1375)	(42.2)
Potatoes	94.2	13.5	24	.5
Sugar	72.8	10.4	113	---
Pulses	62.7	9.0	75	6.0
Nuts	17.8	25.0	15	.5
Vegetables	371.8	53.4	28	1.0
Citrus Fruits	22.6	3.2	2	---
Other Fresh Fruits	112.3	16.1	15	.3
Dried Fruits	90.3	12.9	72	.2
Olives	20.2	2.9	12	---
Oil	112.3	16.1	393	---
Wine	340.0	48.7	85	---
Beer	9.0	1.3	1	---
Cocoa	1.6	0.2	2	---

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Coffee	6.5	0.9	---	---
Tea	0.2	.03	---	---
Pork	19.2	2.7	25.6	1.6
Beef and Veal	24.0	3.5	11.2	1.4
Lamb, Mutton goats	91.1	13.1	38.4	4.3
Poultry	18.5	2.6	7.0	.8
Other meats	2.7	.4	1.6	.4
Fish	26.4	3.8	10.	1.6
Total meats	(181.9)	(26.1)	(93.8)	(9.1)
Eggs	32.3	4.6	18.	1.3
Butter	5.0	0.7	17.	---
Whole Milk	267.6	38.5	80.	3.1
Cheese	60.3	8.5	62.	0.6
Lard and Animal Fat	7.3	1.0	24.	---

TOTALS

From Crops	359.3	2212	50.7
From Livestock	79.4	295	14.4
Combined	438.7	2507	65.1

Source:

Adapted from estimates included in FAO World Food Supply (April 1946); Civil Affairs Handbook, Greece, Section 7, November 1943 (O.F.A.R.; U.S.D.A.) and Yearbook Ministry of National Economy.

Present Position

Due to the good crop in 1946 and the tremendous imports of food by UNRRA since Liberation, the Greek people are as well fed today as they were before the War. Food is displayed in all the stores and markets and no signs of starvation are apparent.

However, the present stocks of food in Greece plus the 1947 harvest will not be sufficient for the country's needs during the coming year. Greece's domestic production never has equalled her consumption, and imports are essential if widespread starvation is to be avoided. The present lowered production and impaired distribution facilities will accentuate the normal shortage.

With the offer of assistance by the United States the necessary imports now appear likely of attainment; in addition to relief shipments

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there will also be large imports of civilian supplies which must accompany any reconstruction and military program if the inflationary effects of these programs are to be avoided. On the assumption that the 1947 harvest in Greece approaches that of 1946 and that the assistance from the United States materializes, the food needs of Greece seem assured. The remaining task is to complete the preliminary plans already started in order to make sure that the import program is one which will be the most beneficial for Greece as a whole.

The collection of domestic production of foodstuffs and the distribution of both domestic and imported food must be more efficiently regulated by the Greek Government. This will permit diversion of outside assistance to productive enterprise, assure a more equitable distribution of food among the people and, even more important, prepare Greece to free herself from dependence upon outside aid at an earlier date.

The Government should institute a program for the collection of the 1947 grain crop. This was attempted in 1946 but without much success; only a small portion of the crop was collected. However, the attempt did demonstrate the possibilities of such a program. If a grain collection program is not carried out, large amounts of grain will fall into the hands of speculators who will hoard it without regard to national needs. When they release grain it will be on the basis of price rather than in the interests of regular and equitable distribution to all areas and classes of people.

The present system of food distribution of the Government should be reexamined to insure that it fulfills its desired purpose of distributing the food equitably among all the people of Greece. In 1946 imported relief

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supplies of grains were distributed in areas where there was a surplus production of domestic grains. This was done against the advice of officials of UNRRA, the British Economic Mission and the American Embassy; with barely enough grain to feed the country the results of such a policy are obvious.

The inadequacy of transportation has also been a cause of poor distribution. It is hoped that the reconstruction of public works afforded by United States assistance will help in solving this problem eventually, but until the effects of this program are felt the Greek Government will have to carefully plan effective utilization of existing facilities.

Child Feeding.

The long years of malnutrition during the War have had a serious effect upon the health and growth of the children of Greece. This has been ameliorated to some extent by the past child feeding programs, but if continued improvement is to be made, the meager diet of the average Greek child must be supplemented by some further child feeding program.

During the War the Swiss Mission of the International Red Cross supplied food for some of the younger children. In 1944 Allied military authorities joined in this effort and when UNRRA began in April 1945 it initiated a child feeding program. At first UNRRA did this by making available to children an additional 10% of the regular issue plus some canned and powdered milk. Since August 1945 special rations for child feeding have been obtained by UNRRA and supplemented by the Greek War Relief Association. All during 1946 the program was in full swing, with large imports of milk and cheese and adequate quantities of Army rations which contained such foodstuffs as fruit juices, crackers, marmalade,

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peanut butter and jam. It is reported that adequate supplies of this nature are on hand to continue the school feeding program until the end of the school year (June 1, 1947), but the supplies for pre-school children are so limited that only the children in cities of over 10,000 are receiving a special ration.

At the present time the child feeding program is the responsibility of two ministries: the Ministry of Supply in feeding the pre-school ages (0 to 6 years of age), and the Ministry of Education in feeding the school children (6 to 14 years of age). The Ministry of Supply does the procurement for both feeding programs.

Welfare authorities in Greece estimate that it will cost from \$20 to \$35 million to continue the child feeding program during the school year 1947-1948. Estimates vary according to the top age limit - 14 or 18, and the nature of the food to be used.

There can be no question as to the desirability of a child feeding program in Greece, any more than there can be a question about it in the other countries where malnutrition and starvation have weakened human well-being. The problem is one of cost and the American Recovery Mission should work with the Greek Government to assure a continuation of this program.

FISHING

The contribution of fishing to the Greek economy has been surprisingly small for a country of coastline and islands, such as Greece. The fishing industry was given some impetus by the influx of refugee Greek fishermen from Asia Minor in 1922, but there has been little improvement since the injection of this new blood. Methods continue to be primitive and the



equipment has long since been outdated.

Though an important source of protein in the Greek diet, fish is not one of its mainstays, as would be expected in a country poor in food and surrounded by fishing waters. Before the war the annual recorded catch was about 20,000 tons and the actual catch may have been larger. However, the Greeks found it necessary to import an additional 20,000 tons to make up their needs and virtually none of the domestic catch was exported. Unfortunately, the transportation and refrigeration facilities in Greece have never been adequate to permit shipment of fresh fish to the interior; consequently, most of the fish consumed in the interior is of the pickled or dried variety or taken from inland lakes and streams.

Over half of the Greek fishing fleet was lost during the war and the catch is now commensurately less.

The government organization responsible for the fishing industry is the Directorate of Fisheries, a department of the Ministry of National Economy. The functions of the Directorate are uncertain, but it apparently has few facilities for direct contact with the fishing industry, for scientific research or even for the collection of factual data. The Hydro-Biological Institute was recently established under the Minister of Public Instruction, and is to be guided by the Academic Board of the University of Athens. It is to be hoped that this institute will undertake the scientific research so needed in the Greek fishing industry to determine which waters can be the most profitably fished and what methods should be used.

The fishing industry presents potentialities which should be developed by the Greek Government. The waters available to Greek fishermen are

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known to contain sufficient fish to yield a much larger annual catch than at present.

There appear to be three prime needs: first, that part of the fishing fleet which was destroyed during the war should be restored. Since these boats are small, most of the construction can be done within Greece, perhaps with credit obtained under the United States aid program. Second, the government organizations responsible for helping the Greek fishing industry should be greatly strengthened. This may require a complete reorganization, a consolidation of the Directorate and the Hydro-Biological Institute, their shift to another ministry and the improvement of personnel. Third, the methods used in the fishing industry should be improved. This should include scientific research to ascertain the best methods and most fruitful sources of supply as well as a training program sponsored by the Government to teach the fishermen the knowledge which has been gained by the scientific research.

CHAPTER IX
SHIPPING

Position of Shipping

Shipping has always been a noteworthy part of the Greek economy. Coastal shipping has developed because the land transport is inadequate to serve the people, most of whom live near the coast or on islands. Foreign shipping has always presented an attractive livelihood to the inhabitants of this maritime country.

In 1939 Greece ranked ninth in world shipping with some 600 vessels of over 100 tons gross totalling 1,800,000 tons. Shipping was predominantly low cost cargo carrying with almost no passenger traffic. 97% of the fleet was cargo ships; 77% was over 20 years old - mostly secondhand; and 90% was ocean tramps.

While the Greek merchant marine was valued at only \$50,000,000 in 1939, the war so increased the value of ships that in 1946 Greek shippers held an estimated \$108,000,000 in blocked sterling accounts in London resulting from insurance benefits, as well as an almost equal amount of earnings in blocked and unblocked foreign currencies.

The Greek merchant marine had been reduced from 1,800,000 to 700,000 tons by the end of the war. To replace destroyed tonnage, the United States Maritime Commission is selling 100 Liberty ships to Greek owners; about 60 of these have already been delivered and the others should be delivered in 1947. This will bring the total Greek ocean-going tonnage to almost its pre-war figure. In addition, an estimated 50 Greek-owned ships fly the Panamanian flag and another 50 the British or Canadian flags, a much higher number than flew these flags before the war.

While Greek ocean tonnage has been restored, many of the ships

are unfitted to the pre-war pattern of Greek shipping operations. Liberty ships in a normal market are not economical to operate as they are too large for many of the Mediterranean and River Plate ports to which the Greek ships formerly operated. If the Greeks are to recapture and hold their old business they will have to acquire some ships of a smaller type. This should not be difficult in view of their insurance benefits and present high earnings.

Greek coastal shipping, in contrast with ocean shipping, has not been restored. Many of the small caiques were sunk during the War and there has been no new building as yet. Most of the larger coastal vessels also disappeared: where 57 operated before the War, there are now only 34, including the few replacements. Part of the coastal shipping is now operated by the Government, and with very little success. The Government is ill equipped to operate such an enterprise, and is presently being pressed with wage demands from the seamen. To restore coastal shipping some small vessels may be available from allied surplus property, but use of foreign reconstructions loans must also be looked to.

Benefits to Greek Economy

The financial benefits to Greece of a merchant marine were less than the fleet's size would suggest, as the vessels were largely operated out of foreign ports, plied between foreign ports and expended their earnings abroad. The whole business was conducted in foreign exchange. An estimated 80% of gross earnings was paid out abroad; over half of this 80% was for fuel, supplies, port dues, loading and unloading expenses, repairs and insurance; the remainder was net profits retained abroad. An estimated 20% was returned to Greece in wages, taxes and net profits. The Bank of Greece makes the following estimates on the merchant marine:

(In Millions of U.S. dollars)

	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	
Gross earnings	40.5	38.0	43.9	61.3	- 65.2
Wages, taxes, net profits to Greece	8.1	7.4	8.7	13.5	
Percent to Greece	20%	19%	20%	22%	20%

The newly acquired Liberty ships present a new opportunity for Greece to obtain more benefits from her shipping. Under the terms of the mortgage held by the Maritime Commission, the Greek shipowners are required to fly the Greek flag and comply with any laws and regulations prescribed by the Greek Government. The Greek Government as guarantor of each of the mortgages has placed further obligations on the shipowner: They must place all their present and future acquired ships under Greek registry, bring a specified amount of foreign exchange into the Greek economy and pay taxes to the Greek Government. In 1947 no payment of foreign exchange is required, in 1948 \$20,000 and in subsequent years \$30,000. The tax figure at first agreed upon was \$8,000 per year but the Government is now considering \$18,000 as the figure. Payment of \$4,500 in foreign exchange to seamen's funds is also required.

Estimates from government officials, from British accountants familiar with shipping and from Greek shipowners indicate that the net yearly earnings of a Greek-owned Liberty ship during the next few years should be between \$200,000 and \$250,000. This agrees with the widely held belief that a \$550,000 Liberty ship can be paid for out of earnings in two or three years.

In the light of these earnings, the tax and foreign exchange requirements appear grossly inadequate. Taxes of \$8,000 or \$18,000 on earnings of \$200,000 are little more than nominal. Bringing into

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Greece a mere 10% or 15% of earnings in foreign exchange imposes little burden upon the shipowner since he can use most of this in paying operating costs.

Any enterprise should be expected to pay a fair amount of taxes to the government under whose protection it operates, and one which is supplied with its capital equipment through the guarantee of its government should be expected to pay substantial benefits into the economy of the country. The Greek shipowner is not being required to fulfill these obligations.

The Currency Committee after consulting with the American Economic Mission advised the Greek Government in February 1947 that in its opinion the payments per year on each ship should be \$30,000 in taxes and \$75,000 in foreign exchange.

Conclusions

1. Shipping is unique in the Greek economy of today. Rather than suffering from the War, it is enjoying a boom with extremely high profits. The insecurity in Greece means little to shipowners because their equipment, operations and funds are all outside of Greece. Shipowners are having certain difficulties with government officials and labor, but these are not of importance to them in their present prosperous circumstances. The problem of greatest importance facing the shipowners, and this is not immediate, is supplementing their Liberty ships with smaller types.

2. Though the shipowners are prospering, their bankrupt government is benefitting almost not at all from their prosperity. Seamen's earnings continue to come into Greece but owners' profits for the most part are left abroad. The shipowners should be required to bear as much

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of Greece's burden as they can, particularly since many have ships which were sold to them by the United States with the primary aim of helping the Greek economy. The Government should raise the taxes and compel substantial payments of foreign exchange into the Greek economy.

3. There has been a marked flight from the Greek flag by shipowners since the war. This has been blamed on the fussy enforcement of petty regulations by the Ministry of Mercantile Marine, on general insecurity in Greece, on unjustified wage demands of seamen and on the hiring and manning regulations of the labor unions. While all of the complaints may have some basis, it seems more likely that some Greek shipowners simply wish to enjoy the complete freedom and nominal taxes offered by the Panamanian flag, and that others who operate from London find the British flag a more logical choice than the Greek. The requirement in the Liberty ship guarantee agreements that Liberty ship owners fly the Greek flag on all their vessels is a step toward bringing ships back to the flag. Encouragements for further transfers could be offered in the form of better government administration and fewer labor difficulties. Certainly the Greek Government should continue its policy of not consenting to the transfer of any Greek ships to the registry of other countries if the ship is still to be owned by a Greek.

Chapter X

FOREIGN AID SINCE LIBERATION

1. UNRRA. The total UNRRA program for aid to Greece amounts to about 3,050,000 metric tons, or about \$354,000,000 (FAS value), in relief and rehabilitation supplies. Of this an estimated \$329,094,000 worth, consisting of the following, had been delivered through December 31, 1946:

Food	\$174,519,000
Clothing, Textiles & Footwear	33,299,000
Medical & Sanitation	6,929,000
Agricultural Rehabilitation	33,653,000
Industrial Rehabilitation	36,811,000
Unclassified	<u>43,883,000</u>
Total	\$329,094,000

The balance, scheduled for shipment subsequent to December 31, consists of:

Food	\$ 4,741,000
Clothing, Textiles & Footwear	1,701,000
Medical & Sanitation	611,000
Agricultural Rehabilitation	11,627,000
Industrial Rehabilitation	2,726,000
Awaiting Specifications (1% freeze)	<u>3,500,000</u>
Total	\$ 24,906,000

Of the total supplies shipped through December 31, 1946, which came to 2,380,114 metric tons, about 153,020 metric tons remained undistributed. An estimate by value is not available. These undistributed supplies consisted of:

	<u>Metric Tons</u>
Foods, Fats & Oils	110,694
Clothing, Textiles & Footwear	8,681
Medical Supplies	1
Industrial Machinery	1,726
Communications & Transport	348
Other Equipment	47
Agricultural Supplies	12,911
Misc. Manufactured End Products	2,281
Fuels & Lubricants	37
Miscellaneous Raw Material	16,294
Unidentified	<u>Unknown</u>
Total	153,020 (plus unidentified items)

2. LEND-LEASE. Material totaling \$81,500,000 was delivered to Greece by the United States under the Lend-Lease program. Of this, military supplies amounted to \$42.5 million, agricultural, industrial and other commodities \$38.5 million, including \$32.5 for food.

3. BRITISH MILITARY AID. Accurate statistics as to the extent and nature of British Military Aid, or a breakdown by classification of material supplied, are not available in Greece since all data of this nature apparently is recorded only in London. It is understood from such information as the Mission has been able to obtain, however, that assistance in 1946, excluding heavy equipment, amounted to \$110 or \$115 million. Aid in 1947 has been rendered thus far at an annual rate of about \$80 million.

4. OTHER BRITISH AID. Under the London Agreement of January 24, 1946, the British Government extended, in addition to other forms of assistance, a loan of \$40 million in sterling for stabilization of the Greek currency, and made available for use by Greece the unexpended balance of \$76 million in sterling remaining under the British Loan of 1940-1941; repayment of the entire 1940-1941 loan of \$184 million in sterling was waived. Subsequently, the British released an additional \$20 million in sterling from the troop pay account for free use by the Greek Government. The British also have extended a credit of \$4 million in sterling for surplus property purchases.

5. EXPORT-IMPORT BANK LOAN. In early 1946 the United States Export-Import Bank extended to Greece a line of credit amounting to \$25 million for the purchase of equipment for reconstruction work on harbors, transportation facilities, utilities, etc. As of January 1, 1947, about \$15 million of this sum had been committed.



6. SURPLUS PROPERTY CREDITS. Greece has been extended \$55 million credits for the purchase of United States surplus property abroad: \$10 million on February 25, 1946, \$19 million on September 25, 1946, \$25 million on September 27, 1946, and \$10 million in February 1947. Government purchases as of March 1, 1947 in Belgium and Italy consisted of \$12,308,000 for consumer goods and \$1,300,000 for railway rolling stock; purchases of maritime equipment in Belgium, Germany and in the United Kingdom amounted to \$10,500,000. The Greeks have indicated an interest in purchasing from surplus in Germany \$19 million worth of transport and manufacturing items, and \$12 million worth of clothing, shoes, food, and other consumer goods, or a total of \$31,000,000.

7. U. S. MARITIME CREDIT. The United States Government has granted to Greece a credit of \$45 million covering 75 percent of the cost of a total of about 100 vessels which the Greeks wish to purchase from American surpluses. The remaining 25 percent, or about \$15 million, is to be paid in cash. Of this sum, about \$30 million dollars has thus far been committed for the purchase of 67 to 70 ships authorized by the Maritime Commission for sale to Greeks. Sales of further vessels have been suspended for the time being.

8. GERMAN REPARATIONS. Under the German de-industrialization plan, Greece is entitled as reparations to about 6- $\frac{1}{2}$ percent of the items authorized for disposal. While the Greek Government has elected to accept the Bremen power plant and various other industrial plants, none of this equipment has been shipped as yet.

9. OTHER AID. In addition to assistance rendered by foreign governments, certain charitable and relief organizations have contributed substantial sums to the country. Foremost among these are the Greek War

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Relief Association, which has since liberation expended about \$12,500,000, and the Near East Foundation which has expended about \$1,151,000.

SUMMARY

	<u>Total Program</u>	<u>Delivered</u>
1. UNRRA	\$354,000,000	\$329,094,000 (12/31/46)
2. Lend-Lease	81,500,000	81,500,000
3. British Military Aid*	-	-
4. British Aid (excluding Military)	140,000,000	140,000,000
5. Export-Import Bank Loan	25,000,000	15,000,000 (1/1/47)
6. Surplus Property Credit	55,000,000	24,108,000
7. Maritime Credit	45,000,000	30,000,000
8. German Reparations	6- $\frac{1}{2}$ % of items disposed	-
9. Private Organizations	-	13,651,000

* British Military Aid prior to 1946 unknown; 1946, \$110-\$115 million; 1947, rate of \$80 million per annum.

APPENDIX A

Athens, Greece
February 17, 1947

His Excellency
The Prime Minister
D. Maximos

My dear Mr. Prime Minister:

Surplus property valued at \$900,000,000 is to be placed on sale in the American Zone of Germany by the Office of the Foreign Liquidation Commissioner (OFLC) of the United States Government beginning about March 15, 1947. During 1946 Greece unfortunately began its purchases of surplus property in France, Belgium and Italy after much of the useful property had already been sold. If the remainder of the \$45,000,000 credit granted to Greece for the purchase of surplus property is to be used to obtain in Germany the property most suited to Greece's needs, it is imperative that the Greek Government at the earliest possible date complete its preparations for purchasing.

It is understood that the State Organization for the Administration of Allied Surplus Stores (SOAASS), which has a purchasing commission in Paris and a selling staff in Athens; is charged with this responsibility.

After examination of this problem, the American Economic Mission to Greece believes that the surplus property which Greece can purchase in Germany constitutes an important part of the foreign aid which will be available in 1947 for the rebuilding of the Greek economy. Since the final report of the Mission will probably not reach the Greek Government until after the sales in Germany have started, the Mission wishes at this time to present recommendations to the Greek Government which may be of aid in obtaining for Greece the maximum benefit from this source. It is emphasized that the making of policy decisions and the perfecting of an organization must be speedy if Greece is to obtain this maximum benefit.

A. A general statement of the principles to be followed in the purchase of surplus property should be made by the Government for the guidance of SOAASS. In the past a foremost principle seems to have been to purchase property which could be readily resold to obtain revenues for the Government. Less emphasis was placed upon the procurement of construction equipment and material.

In computing foreign assistance necessary for Greece during 1947, it has been assumed that a substantial part of Greece's minimum essential import requirements will be procured from surplus property stocks, thus reducing the amount of foreign exchange needed by the country. Equipment and material vitally essential for reconstruction in Greece during the next several years is to be found in Germany; foreign exchange will probably be unobtainable for procurement of most of this property through normal trade channels and, even when the exchange is available, delivery will be slow. Other commodities, raw material and machinery which will be useful in the Greek economy and yield revenue to the Government are also to be found in Germany. Greece will, of course, wish to exhaust the possibility of procurement of any needs from surplus property stocks before expending credits in the open market.

The Mission believes that the basic guide in purchasing should be the usefulness of the property in Greece, and that the amount of revenue obtainable should be only a secondary consideration. Accordingly, the Mission recommends that the Government establish the following priorities in the purchase of property:

- 1 (a) Property designated as part of the minimum essential import requirements of 1947. This includes among other items certain foodstuffs, clothing, shoes, vehicles and equipment, metals, machines, tarpaulins, medical supplies, paints, office supplies and household goods.
- (b) Reconstruction equipment and material for essential projects during the next two years. This includes among other items railway equipment and construction material, road construction equipment and material, building material and small boats.
2. Property of use in the Greek economy, the purchases of which from this source will conserve Greek foreign exchange or the sale of which will obtain revenue for the Government.

B. Using the priorities as a guide, the specific types and amounts of property needed by Greece from the supplies available in Germany must be determined by SOAASS and listed in detail. Purchasing appears to have been done in the past on the basis of personal estimates of Greece's needs by members of the Purchasing Commission, of consultations by members with Government officials and of occasional instructions from the Government. In order to make economical and efficient use of the credit granted to it, Greece should plan its future purchases in a businesslike manner commensurate with the amounts of money involved.



The Mission recommends that SOAASS compile a detailed list of OFLC property needed by Greece. The list should include only property which may possibly be in Germany, as shown in past sales and other indications; it should be in OFLC terminology; reconstruction needs should be based upon engineering plans of the Government, the railways and industry; commodity needs should be based upon an examination of Greece's over-all import program, upon experience gained in current sales of surplus property to the Greek public and upon Government information. Only on offerings of unusual items which cannot be foreseen in advance should reference to Athens or complete reliance upon the individual judgments of members of the Purchasing Commission be necessary. The list should be transmitted to the Purchasing Commission for circulation to all OFLC offices in Western Europe before March 15, 1947.

C. The organization of SOAASS should be strengthened immediately to cope with the serious responsibilities it must meet within a few weeks. Indications are that in the past there has been insufficient coordination between the Government agencies concerned with a surplus property; that responsibility has not been delegated sufficiently to enable decisive action; that contact with OFLC has been handicapped by the inability of Purchasing Commission members to speak English; that reception, warehousing and selling of property in Greece has been inadequate in part because there was inadequate staff to plan and execute these functions.

The Mission recommends:

1. That all affairs concerning surplus property be handled by SOAASS and that there be no direct communication between the Government and subordinate agencies of SOAASS.
2. That SOAASS transmit to the Purchasing Commission clear instructions, a detailed list of needed property and, from time to time, amendments to these instructions and list, and that within these limits the Commission be given full authority to operate without referring questions back to SOAASS.
3. That SOAASS augment the staff of the Purchasing Commission with engineers who speak English fluently and with an American familiar with American government and business methods, and that the Commission be directed to proceed with arrangements for purchase in Germany immediately.

4. That SOAASS speed the organization of its staff and facilities for reception, warehousing and selling in order to effect economic distribution of the property and to gain sales experience useful in further purchases of property. The property available for sale in Greece should be publicized widely; specialized items should be brought to the attention of enterprises which might possibly use them. Property should be moved by SOAASS into the hands of the public within a short time after arrival in Greece, even though this may sometimes result in lower sales prices than those which could be obtained later on; the Government should grant credit for the purchase of capital equipment when this will stimulate production; and the Government should retain only reconstruction property and goods being distributed through rationing.

D. SOAASS should determine how it will meet its transportation requirements. It is understood that in the past the Purchasing Commission in Paris, the Greek Shipping Committee in London and the Ministry of Mercantile Marine in Athens have all participated in the transportation of surplus property from the site of purchase to Greece. Although some informed sources warn that there may be serious difficulties in future transportation, the Mission has learned of no completed plans in Athens ensuring against these difficulties.

The Mission recommends that SOAASS initiate a survey of the transportation available to it, and that this be completed in time to take the proper steps if inadequacies are revealed.

Officials of OFLC have expressed to me the greatest sympathy for Greece's needs. I have recently urged my Government to give the Greek Government the highest priority possible in the purchase of surplus property in Germany. If prompt action is taken by the Greek Government along the lines suggested in this letter, I believe that the economy of the country will receive very substantial benefits from this source of aid.

I am transmitting a copy of this letter to my Government in Washington, to the American Ambassador in Athens and to OFLC offices in Washington, Paris and Rome.

Sincerely,

(s) Paul A. Porter

Paul A. Porter
Ambassador
Chief, American Economic
Mission to Greece

APPENDIX B

STATEMENT BY THE PRIME MINISTER

Mr. Maximos outlined the main points of the new Government's economic policy as follows.

- (a) Avoidance of inflation and protection of the national currency by every sacrifice in close co-operation with the Currency Committee.
- (b) Regulation of imports and exports under close observation by the central organization.
- (c) Enforcement of every restriction and control which can be considered necessary for the Greek economy to return to normal.
- (d) Taking of any measure which is necessary for the compression of price levels and the extension of ration cards to all basic goods for the maintenance of the population.
- (e) Reorganization of banking credits for achieving decisive assistance towards production.
- (f) Use of all Greek labour for reconstruction.
- (g) Complete co-operation with the Porter Mission and the British Economic Mission and the granting to them of all available data so as to keep them well informed of the economic and financial situation of the country.
- (h) Suspension of appointments to public posts excluding those which, by Cabinet decision, are considered unavoidable for the smooth running of the State.
- (i) Dismissal of incompetent civil servants.

18th February, 1947.

APPENDIX C

CURRENCY COMMITTEE
Bank of Greece
Athens

28 February 1947.

Your Excellency,

Your country faces during the coming months economic and financial problems which if unsolved or met piecemeal can only lead to disastrous consequences. The economic and financial position of Greece has for the past few weeks been deteriorating at a frightening rate.

Retail prices have increased 4% since the beginning of the year, and will certainly rise faster when the full effects of the restricted import programme made necessary by the foreign exchange famine make themselves felt. In addition, the sovereign reserves of the Bank of Greece on February 28th totalled only 101,000 sovereigns and the possibility of adequate replenishment is remote.

The debt of the Greek State to the Bank of Greece increased by 77 billion drachmae from February 1st through February 22nd. The budget for the next fiscal year as tentatively scheduled by the Ministry of Finance presents a deficit of Drs. 1,316 billions excluding the value of imported supplies for the Armed Forces, and without adequate provision for reconstruction expenditure being made. If, as seems very possible, Greece must pay for these supplies for the Armed Forces, the deficit will total Drs. 1,900 billions - nearly four times the amount of currency now in circulation.

Each day partly as a result of rising prices and partly as a result of mistaken economic policies adopted for political reasons, the Government is faced with new wage demands and increasing signs of labor unrest.

With regard to Greece's international financial position, the situation is equally alarming. UNRRA imports are rapidly terminating and the Greek nation must somehow obtain foreign exchange to meet the essential import needs of its people. Under conservative assumptions, these needs during 1947 will total at least the equivalent of \$250 million. The Government has estimated that on an austerity basis, imports of at least \$350 million will be necessary during 1947. Against these demands the Bank of Greece had available on February 15th total foreign exchange assets, including currency cover, to the equivalent of \$102 million. Gold and dollars constituted only \$16.5 million of this amount.

The above facts make it clear that unless the Government adopts at once a courageous economic and financial policy, and immediately

takes firm steps to meet some of the specific problems now facing it, an economic and financial catastrophe, with all its social and political repercussions, cannot be avoided regardless of what foreign aid may be in prospect.

At our meeting with you on Saturday, February 22nd, you requested us to set forth in detail certain specific steps which in our judgment must be taken at once. These are outlined below. We are here concerned only with some measures which can and should be put into immediate effect, although they are obviously not intended, nor indeed are they sufficient, to meet all the basic economic problems the nation faces. The measures suggested herein are only a first step, but they are the indispensable first step and will prepare the way for others. Specifically, we are not here concerned with measures which must be taken to meet the fiscal problems presented by the 1947/48 budget.

We must point out specifically that all the suggested measures should be taken simultaneously since the success of each depends upon the others.

1. The Currency Committee:

All ministers and officials must be instructed once and for all that no decisions which, by Greek law, fall within the competence of the Currency Committee are to be taken, and no opinions thereon are to be expressed publicly, until the matters have been acted upon by the Currency Committee. Offending ministers and officials should be dealt with firmly. The Currency Committee can be of service to the Government only if it is permitted to discharge its legal obligations. We wish to make it clear, moreover, that unless the Currency Committee is permitted to discharge its legal obligations, we should not be asked to accept the responsibilities which are placed upon us by law.

2. Wage Policy:

The experience of Greece since liberation has proved beyond all question that a governmental policy of non-resistance to wage and salary demands has resulted in no ultimate betterment in the condition of the workers. On the contrary, it has been a major factor contributing to inflation of which the workers, civil servants, and farmers are invariably the principal victims.

At the present time the Government is faced with a wave of demands for wage increases. A weak policy in the face of these demands can only lead to an inflationary wage-price spiral. Therefore, it is imperative for the Government to announce immediately a general "freeze" of all wages (and wages must be interpreted as including 'loans' as well as payment in kind). This wage "freeze" should be supported by the following measures:

- (i) Workers on strike in either public or private employment are not to receive wages or any form of public aid for

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the period during which they have not been working.

- (ii) The Government will use every means in its power during the course of any strike to maintain the flow of essential supplies to the public, including the use of the Armed Forces in moving supplies.

In accordance with the above, the Government's position with respect to certain cases before it should be as follows:

- (A) No increase in dockers' wages should be sanctioned which would result in an increase in port charges at Piraeus Harbour.
- (B) The 100,000 drs. monthly bonus for public servants and the 50,000 drs. for pensioners which were given for the months of February and March 1947 will, as stated when the grants were announced, be given for these two months only. If the Government should feel it necessary to concede some temporary alternative improvement in pay and pensions after 31st March, 1947, the concessions should take the form of:
 - (a) an increase of the existing percentage additions to basic salaries for Long Service and Family Allowances, any such increases to be announced as provisional measures pending the definite revision of the public services' remuneration, etc., which the Government has undertaken to make, with the help of foreign experts;
 - (b) relating service pensions, in accordance with the pre-war regulations, to current basic salaries, with a maximum of 80% (85% for Judiciary and Defence Services) of basic salary, excluding all bonus, etc., and reckoning only actual years of service as qualifying for pension.
 - (c) In no case should concessions made exceed the cost of the present 100,000 drachmas bonus less the Easter, Christmas, and New Year bonuses hitherto granted.
- (C) The provisional grant of increased wages authorized last week to the merchant seamen must be discontinued on March 3rd.
- (D) No increase is to be approved in the case of the mill workers. If these workers carry out their threat of a "slow down", their pay must be similarly reduced.

It should also be announced that fact-finding organizations are being formed at the earliest possible date to investigate cases involving

extreme hardship and gross inequality under the wage "freeze", their recommendations to be subject to review by the Currency Committee before publication. It appears to us also that a thorough investigation into the whole of the Greek wage structure and into methods of remuneration prevalent in the country is urgently called for.



3. Prices and Hoarding:

We believe it essential that if the workers are to make the sacrifices called for above, an equally firm attitude must be taken with respect to profiteering and hoarding by many of the nation's merchants, traders and industrialists. To this end the Government should announce and promote with vigour an anti-hoarding campaign backed up by inventory controls which make unlawful the possession or ownership by any person of inventories of designated essential goods in excess of reasonable requirements for the conduct of their business. The penalty for violation should be confiscation by the government of excess supplies. Too drastic effects of such a plan can be avoided by permitting all persons declaring excess inventories to dispose of them through regular trade channels over a period of time at a rate at least equal to that specified by the Government.

In addition and as an alternative sanction bank credits to known hoarders should be cancelled and outstanding loans should be called.

Specifically in the case of dealers in imported goods, the Government should require each applicant for an import permit to declare an inventory of stocks of previously imported goods. After the plan is in operation, each applicant for an import permit should be required to submit bills of sale which demonstrate the disposition of previously imported goods through the regular channels of trade, and as a first step the use of such bills of sale should be made obligatory. Permits should be denied in those instances indicating excessive accumulations of stocks, and in flagrant cases of hoarding the Government should not only requisition the surplus stocks but also bar the offenders from the field of import and export trade.

Furthermore, in view of the existing differential between the external and internal price levels, the Greek Government should adjust its duties on all items of import, other than foodstuffs and fuel, to correspond in each instance to the increase since pre-war in the free market price. In general, the present duties are approximately 40 times pre-war while the price-level is at least 140 to 160 times pre-war. This should be done both as an anti-profiteering measure and as a means of increasing Government revenues.

The most immediately pressing case where requisitioning is in order involves the approaching failure of certain tobacco merchants to live up to their contract with the Greek State for the delivery of tobacco

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State as a party to the contract must use its full powers to see to it that the necessary tobacco is furnished and that the defaulter is held financially responsible.

There is in Greece in many cases a quite unjustifiable gap between wholesale and retail prices. Last year preliminary steps were taken to reduce this gap by means of the standardization of textile products. We recommend as a matter of urgency that these steps be followed up and that a Director of Textile Supplies be appointed.

4. Control of Exports, Imports, State Supplies:

Your Government must without delay establish a centralized control of exports and imports. The present system characterized by either no controls at all or by controls administered under the overlapping authority of several ministries must be abolished. Specifically it is suggested that the present foreign purchase functions of the Ministry of Supply and the Ministry of Finance be abolished and that there be established within one ministry a "Foreign Trade Administration" which should be headed by one official thoroughly experienced in supply and price conditions abroad and not amenable to pressure from the trading community. Under this official must be placed not only the import licensing for private imports but also the "Service of State Supplies" the "State Organization for the Administration of Allied Surplus Stores", other state purchases and all private and State barter agreements. Mr. Buell Maben of UNRRA has given considerable thought to the problem and the details of such a "Foreign Trade Administration" could be most usefully discussed with him at a very early date.

The credit which has been extended to Greece for purchase of U.S. Army surplus property in Germany can contribute greatly to procurement of Greece's minimum import needs for 1947. A successful utilization of this credit now depends entirely on the Greek Government. If you act quickly and purchase wisely many millions of dollars of essential items can be procured. We most urgently recommend that the series of specific suggestions contained in Ambassador Porter's letter to you of February 17th be implemented at once. Since the buying begins on March 15th, Greece has not a single day to lose.

5. Merchant Marine:

The Greek Merchant Marine should provide Greece with a large amount of desperately needed revenue and foreign exchange. In our judgment the present draft agreement between the purchasers of the United States Liberty ships and the Government is little short of a national scandal. Under the terms of this draft agreement, which we are told is soon to be presented to Parliament for ratification, the purchasers will, at the maximum, be required to bring into Greece nothing in 1947, taxes and foreign exchange equivalent to \$42,500 per ship during 1948 and \$52,500 each succeeding year.

The Greek Government has guaranteed the mortgages on these ships and has every right to expect a greater return for the Greek nation. Since the U. S.

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be presented to Parliament for ratification, the purchasers will, at the maximum, be required to bring into Greece nothing in 1947, taxes and foreign exchange equivalent to \$42,500 per ship during 1948 and \$52,500 each succeeding year.

The Greek Government has guaranteed the mortgages on these ships and has every right to expect a greater return for the Greek nation. Since the U.S. Government's primary reason for selling these ships was to aid Greek recovery, it is essential that reasonable benefits should flow to the Greek economy. Because any enterprise has an obligation to contribute to the economy of the Government under whose protection it operates, the shipowners should be required to return substantial amounts of taxes and foreign exchange to Greece. In view of the above considerations, in view also of Greece's needs for foreign exchange, and in view of the prospective large profits (we understand that most of the buyers believe that so long as the present shipping market continues they will realize a net profit per ship per year of at least \$200,000 and will be able to repay the entire mortgage in 2-3 years), we believe the agreement should provide as a minimum the following, beginning with 1947:

Total tax per ship	\$ 30,000
Payments to crews insurance and benefit funds in Greece ..	\$ 5,000
Return of foreign exchange to Greece (may be used for operating charges in Greece; deduction to be made for periods of non-operation of more than one month; amount subject to change if freight rates vary 20% from 1947 rates)	\$ 70,000

6. Olive Oil:

The time has come when Greece must export sizeable quantities of olive oil if she is to import vitally needed goods. In cooperation with your interested Ministers we are preparing plans for the controlled export of olive oil. These should be completed within a week, and we believe they must then be put into effect without delay. We urge your Government at once to order that henceforward no edible olive oil may be used in the manufacture of soap, margarine or for other industrial purposes. Further, the Greek Navy and other enforcement offices must be instructed to renew their efforts to prevent the smuggling of olive oil out of Greece.

7. Black Market in Foreign Exchange:

We believe that at least \$500,000 per month of foreign exchange, largely dollar remittances, and so of exceptional significance to the Greek economy, are currently being negotiated in the black market. As a first step in ensuring that these foreign exchange receipts flow into legal channels and so become available for the financing of essential imports, we suggest the immediate imposition of a financial censorship of the mails,

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to be operated by the Bank of Greece.

We are aware that the proposals which we are submitting to you here- with are likely to call for considerable sacrifices by large sections of the population, and will inevitably call forth a considerable volume of clamour and of interested opposition. Avoidance of these immediate difficulties by inaction on your part will not, however, be of any avail. The alternative to speedy and prompt action is the progressive deteriora- tion of the Greek economy, ultimate collapse, and collective and univer- sal misery. We believe that if a serious attempt is made to instruct the Greek people as to the reality of the present situation, the vast majority of well-meaning citizens will approve of a firm stand being taken by the Government. We, therefore, urge you to take the Greek people into your confidence, to explain the situation to them and to make it clear to them that it is not the rich but the poor who are certain to suffer most if the economic system is destroyed. The Greek Press, so far from enlightening the Greek people, is helping to confuse and demoralize public opinion by a reckless disregard of facts and by deliberate distortion. Should you desire us to assist you by preparing a factual statement which can be submitted to the Greek people, we shall be very happy to do so.

We have the honour to be,

With the highest consideration,

Your Excellency's obedient Servants,

T. E. GREGORY

GARDNER PATTERSON

His Excellency,
Monsieur D. Maximos,
President of the Council,
Government of Greece.

APPENDIX D

AMERICAN ECONOMIC MISSION TO GREECE
Athens, Greece

March 3, 1947

Excellency:

In our recent conversation you referred to the necessity for developing an effective program for acquisition and utilization of industrial plants and equipment to which Greece is entitled as reparations under the German de-industrialization plan, and asked if I would consider the problem and give you my informal suggestions. My Mission has not yet had sufficient time to give the matter the careful study which it deserves, and I therefore am not prepared to formulate specific recommendations. I am, however, outlining herein general considerations which I believe are involved and the course of action which occurs to me at this stage as advisable. I hope that after the Mission returns to Athens next week we will have an opportunity of discussing the matter more fully with you and perhaps developing a clearly defined plan.

There is every reason to believe that reparations can play an important part in the economy of Greece, and utilization of reparations items should be planned in conjunction with, and fitted into the general pattern of, an over-all program for industrial expansion and development. Items must be selected only for those industries which have the greatest promise of aiding the country's economy. The three principal problems involved in accomplishing this objective are discussed below:

(1) Organization and Procedure. The present organization and procedure for handling reparations items seem to me to have inherent weaknesses. Under this system the Inter-Allied Reparations Agency in Brussels, acting under the directives of Military authorities in Germany, issues to the Delegations of the several recipient countries lists and specifications of items which are to become available for disposal. This data is transmitted by the head of the Greek Delegation to the Foreign Office in Athens, which in turn informs the various Ministries. The Ministries then advise the Foreign Office as to which items they want, and the Greek Delegation in Brussels is instructed to proceed with negotiations for their acquisition. The lack of effective coordination among the various branches of the Government can result in dissipation of the possible benefits to be derived from reparations. Further, the program as operated at present makes it difficult or impossible to coordinate the reparations program with an over-all plan for reconstruction and development.

His Excellency S. Stephanopoulos,
Minister of Coordination,
Athens, Greece.