Bearing gifts to Greeks: American aid in Greece's post-war recovery, 1947-53

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I. The challenge

The role of foreign aid, particularly aid given under Marshall plan, in Europe's post-war stabilisation and recovery has been the subject of much debate. Empirically oriented works on the actual pathways through which aid mattered to each economy, have been complemented by more qualitative approaches, focusing on the effectiveness of aid as leverage in shaping domestic policy outcomes[1].

Greece's place in this literature has been modest – at best. Despite having been a major recipient of post-war aid, and the site of some of the earliest and largest US aid missions, the country is systematically excluded from comparative works. The existing literature is heavily skewed toward the political history of the period, with economic analysis given short shrift[2].

This paper is part of a project that seeks to redress this imbalance, by revisiting Greece's economic experience under the Truman doctrine and Marshall Plan, combining data from a newly constructed database of macroeconomic and aid-related indicators from 1945-1955, with more qualitative material from contemporary publications, policy documents, and testimonials.

II. The historical background

The Second World War took a particularly heavy toll on what had already been one of Europe's poorest countries: with its infrastructure destroyed, trade networks shattered, budget and currency in tatters – hyperinflation was raging since 1941 – post-war Greece was in need of substantial assistance. The situation was further aggravated by a bitter civil strife, which climaxed into outright civil war between 1947-49, causing further drains on the country's resources.

Thus Greece's early post-war experience, was one of substantial inflows of foreign assistance, granted – however reluctantly at times – by its western allies, in recognition of the dangerous implications Greece's economic and political derailment would have had for the country itself, as well as the entire region. After all, these were the first years of the Cold War, and Greece was one of its first hot zones. Between 1944 and 1955, Greece received just over $2 billion in economic assistance, and another $1.2 billion in military aid; 85% of that aid came from the US, almost entirely in the form of grants[3]. As the British withdrew their financial assistance in early 1947, and the *United National Relief and Rehabilitation Administration* (UNRRA) wound down its operations, the US assumed responsibility for providing both military and economic aid, first under the *Truman doctrine* (PL75) – which was designed specifically for Greece and Turkey – and then through the *European Recovery Program* (ERP) and *Mutual Security Act* (MSA). The bulk of American aid came into the country between 1947 and 1953, along with hundreds of US military and civilian personnel, who staffed the sprawling aid and embassy missions in Athens. Some even held senior positions *within* the Greek administration and army command, or were embedded in key ministries and the Central Bank. Dollars thus came along with guns, ensuring that the national army would prevail in the war, as well as

[1] An early classic is Milward (1984) is the early classic in a literature reviewed concisely in Ritschl (2008).
[2] Only recently have the works of Stathakis (2004) and Vetsopoulos (2007) sought to shift emphasis on the economic front.
[3] Multiplying by a factor of 8.5 gives a rough equivalent in today's dollars, although the corresponding donor GDP would have been much lower today.

political leverage, used to make or break governments, reshuffle cabinets and influence policy; the results of these efforts were mixed (see IV below), but no account of Greece's experience with US aid can ignore them.

Aid continued well into the fifties and sixties, but following the successful completion of a stabilisation program in 1953, the economy's reliance on foreign assistance dwindled rapidly. Over the next two decades, Greece witnessed record growth rates, second only to Japan in the OECD. Yet the significance, if any, of aid and reconstruction in laying the ground for the subsequent take-off remains heavily disputed, in what to this day is an ideologically charged discussion.

III. American aid in Greece: what the data tells us

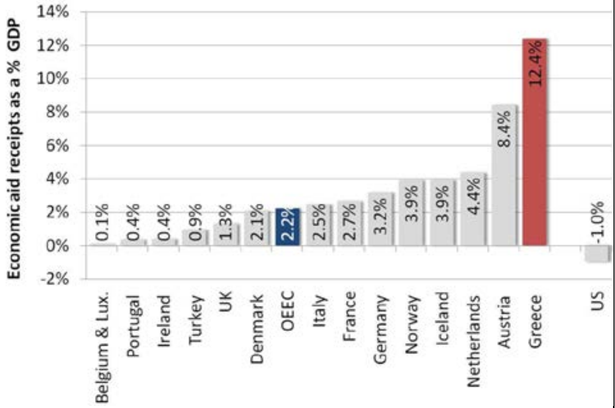
While the overarching ends of the Marshall plan were clearly political, its means were economic: American assistance was chiefly meant to address Europe's dollar shortage, financing its trade deficits and pump-priming trade and investment, until economic activity had recovered sufficiently to permit a resumption of European exports. The local currency counterpart of aid-financed imports was made available to recipient governments as a supplement to domestic savings and tax revenue.

Accordingly, the Marshall plan's *direct* economic impact is estimated in a two- or three-gap model setting, focusing on the role of ERP funds in financing foreign imports and domestic investment and budgets. At least since Milward (1984), the results of such assessments have found the volume of ERP resources to have been too small to have a sizeable *direct* impact, and research has thus turned to the *indirect* pathways in which aid may have mattered for European recovery – removing specific resource bottlenecks, boosting private sector confidence, disseminating American technology and managerial practices, or building the necessary consensus for stabilisation and structural reforms (e.g. Borchardt and Buchheim 1991, Eichengreen and Uzan 1992).

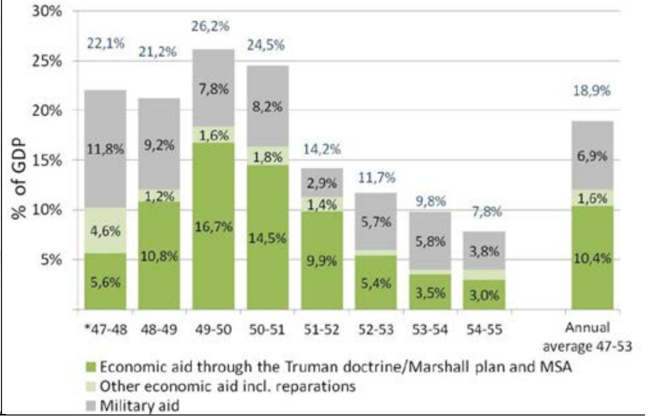
At the same time however, **significant differences in national experiences have been recognised**, with aid having played a much more important role in countries like Austria and the Netherlands than, say, Belgium or the UK. Greece's position on this spectrum remains unknown, not least due to data limitations and the relative paucity of economic research on the country's early post-war period. These limitations end up exaggerating Greece's 'exceptionality' and narrow the scope of the domestic historical discourse, which remains highly dismissive of aid's economic significance.

In what follows, we present the first comprehensive estimates of aid's role in post-war Greece. Given the space limitations of this paper, only some key aggregates are presented, whereas details and methodological notes are suppressed.

US economic aid to Europe, 1948-52 (% of GDP)



Foreign aid to Greece, 1947-55 (% of GDP)



The results are striking. Comparative figures on the ERP alone, place Greece at the top of the league, with average annual aid inflows of 12.4% of GDP, compared to a 2.2% for the OEEC and 8.4% for Austria – the next largest recipient. Yet Greece was receiving *additional* military assistance to the tune of 6.4% *per annum* as well as aid through other programs; when these sources are combined, inflows amount to a whopping 20.3% *annually* for the Marshall years, or 18.5% for the broader period 1947-53. With annual inflows of about a fifth of GDP, the importance of foreign resources in financing Greece's reconstruction is hard to exaggerate. This reverses much of the established view that wants foreign aid to have played a minor role in Greece's recovery (e.g. Stathakis 2004, Politakis 1990), and adds Greece to those countries where the Marshall plan made a significant – arguably the greatest – *direct* contribution to the country's economic survival and recovery.

These findings are reinforced by a more detailed look at the role of aid in financing the balance of payments, gross fixed capital formation (GFCF) and government expenditures (see below).

Foreign aid in Greek reconstruction, 1947-53

	Fiscal years (July-June of each year)						Period totals	
	***47-48**	**48-49**	**49-50**	**50-51**	**51-52**	**52-53**	**47-53**	**48-52**
I. Aid compared to national income (aid receipts as a % of GDP)	**23.1%**	**21.8%**	**25.5%**	**23.0%**	**12.8%**	**12.1%**	**18.5%**	**20.3%**
… economic aid under PL75/ERP/MSA	5.9%	11.2%	16.3%	13.6%	8.9%	5.6%	10.1%	12.4%
… other economic aid (incl. reparations)	4.8%	1.2%	1.6%	1.7%	1.3%	0.6%	1.6%	1.5%
… military aid	12.3%	9.4%	7.6%	7.7%	2.6%	5.9%	6.9%	6.4%
II. Aid's role in financing Greek trade (aid receipts % of goods imports)	**62.9%**	**68.5%**	**75.0%**	**71.3%**	**60.4%**	**32.3%**	**64.4%**	**69.2%**
… economic aid under PL75/ERP/MSA	44.5%	66.1%	70.0%	64.5%	53.1%	27.5%	56.9%	63.9%
… other economic aid (incl. reparations)	18.4%	2.5%	5.1%	6.8%	7.3%	4.8%	7.4%	5.3%
III. Counterpart contribution to investment (% of GFCF financed by counterparts)	**30.0%**	**42.8%**	**42.8%**	**42.2%**	**17.5%**	**11.5%**	**30.7%**	**35.9%**
… public inv. financed by PL75/ERP/MSA	79.1%	90.7%	83.6%	88.8%	49.0%	39.1%	73.5%	79.5%
… private inv. financed by PL75/ERP/MSA	1.9%	7.2%	13.6%	16.5%	4.7%	1.0%	7.8%	10.7%
IV. Counterpart contribution to budget[1] (% of expend. financed by counterparts)	**9.1%**	**21.3%**	**32.9%**	**22.1%**	**25.2%**	**14.5%**	**21.1%**	**25.6%**

Notes:
1 This excludes public investment expenditures and military expenditures directly financed by foreign aid.
* 15 months; April 1947 to June 1948 (change in fiscal year to align with US fiscal years).

Even without any capital imports, post-war Greece faced an abysmal trade deficit: the loss of invisible earnings from shipping and remittances, coupled with the low exportability of tobacco and currants (the country's main cash crops), meant that foreign resources were needed to feed the population. Our estimates show aid funding about two thirds of the country's civilian imports over six years, as well as all military imports; even if the latter are excluded, figures from the OEEC suggest no other country was as heavily dependent on the ERP to fund its balance of payments.

Turning to counterpart funds, the local currency equivalents of aid-financed imports, those inevitably represented a sizeable fund, half of which was used to finance domestic investment. It would be no exaggeration to claim that public investment until 1953 was financed *entirely* by foreign resources, three quarters of which came from Truman and Marshall aid; thus US aid counterparts accounted for over a third of total investment in the reconstruction period, with particular intensity in such sectors as infrastructure (roads, ports, rail), land reclamation/agriculture and public housing (not least due to the thousands of shelters built for war refugees). Landmark projects such as the creation of the agricultural extension service, the reorganisation of public health provision, the integration of national power grids and the establishment of the Public Power Corporation, also owe much to the planning, resources and administrative *élan* of early aid missions.

On the other hand, those sceptical of Greece's benefits from foreign assistance point to successive curtailments in the investment budget, which fell far short of original expectations, particularly with respect to industrial investment (see Amen 1978, Kofas 1989, Politakis 1990, Stathakis 2004). While such criticism may be understandable in the writings of contemporaries – actively involved in these programs and naturally disappointed by delays – it is a strange yardstick for modern historians to use. For the data may reveal a shortfall relative to original promises or expectations, but such expectations were always contingent on other developments as well (monetary stabilisation, a swift conclusion to the civil war, etc.). What is more, the data also suggests that the only reason Greece managed to attain an investment rate on par with the OEEC average whilst fighting a civil war, was the massive influx of foreign aid. As for complaints about the *composition* of investment, those entail a very narrow prescription of what the 'right' kind of investment should have been; and even so, it would be strange to expect an impoverished and agricultural country seeking to close its food deficit to have the same investment pattern as France under the Monnet plan (a comparison made by Hatjiiosif 2011).

Still, reference to investment cut-backs does highlight a significant feature of the Greek experience, namely how aid resources often had to be diverted from investment to regular budget expenditures. In fact, about a quarter of Marshall counterparts was used to pay for public sector salaries and other regular expenditures, not least to avoid a rekindling of hyperinflation in a country where budget deficits could only be financed through the printing press. This brings us to the delay in fiscal and monetary stabilisation, a key piece in the broader puzzle of using aid to push through reforms.

IV. Beyond the data: aid and reform

Given Greece's aid reliance and the extensive powers granted to foreign officials, why did aid missions fail to implement the reforms needed to stabilise the economy before 1953? And what about their overall record of policy reform? Most historians paint a grim picture of Greece's economic reforms, with discussions focusing on apportioning the blame between the US and Greek side.

First of all, one could challenge the very notion of policy failure: the top American priority in Greece was to win the war, and that was accomplished by the summer of 1949; Marshall himself made it clear in a telegram to Athens, that other goals – including economic stabilisation – would be subordinated to this overarching objective[4]. What is more, irrespective of their own leverage, Americans recognised the difficulty of trying to reconcile an overriding priority on military victory with the pursuit of economic reforms (tax hikes, cutbacks in credit and wages, etc.) that threatened to destabilize the fragile political coalition on whose alliance they were relying in the anti-communist struggle.

This brings us to the Greek side, whose procrastination and resistance to reform are attributed – depending on the author's ideological leanings – to the disruptions caused by the civil war, or the rapaciousness of a narrow economic oligarchy reluctant to shoulder its 'fair share' of the reconstruction burdens. The inefficiency, inertia and myopia of public administration are also blamed by most authors. Although each of these accounts contains some truth, none offers a satisfactory interpretation of Greece's reform experience: the civil war ended in mid-1949, yet it took another two years to initiate a successful stabilisation program; tax evasion and profiteering at the top were ubiquitous, but so were heavily subsidised consumer goods and generous wage hikes, all of which were equally detrimental to financial stability, though none was aimed at the elite. As for the public administration, its efficiency was miraculously restored whenever a measure was not perceived as threatening to key sectional interests.

[4] Marshall to Griswold, 12.01.1948; Foreign Relations of the United States (1948: 26).

This is a broad and complex issue, so in the little space that remains I can only hope to scratch the surface; but I contend that any comprehensive account of aid and reform would have to consider the institutional setup and political economy of the situation in greater detail: fragile coalition governments in desperate need of legitimacy in the eyes of their electorate, amidst a civil war, are quite rational in seeking to woo broad segments of the population, whilst preferring to let foreign aid or the inflation tax defray the cost of their policies. Especially when they are funded by a foreign donor so heavily invested in winning the war, that any threats of discontinuing aid lacked obvious credibility.

Turning to the donor side, its leverage, was more limited than the size of the American wallet might suggest: the coexistence of multiple agencies with overlapping jurisdictions and conflicting agendas, the informational asymmetries between the Greek and US sides, as well as American personnel in Athens and Washington further undermined the effectiveness of aid conditionality[5]. US archives offer numerous incidents of *internal* conflict and disagreement; on many such occasions, alliances were formed between Greek officials and their American counterparts on a departmental basis, cutting across the donor-recipient divide; more than once, Greek officials were used by their foreign colleagues to run interference until the US position shifted in a direction more favourable to the objectives or views of their department. Greece's autonomy vis-à-vis foreign donors was much greater than usually envisaged.

In this context, the delays in Greek stabilisation and reform are products of a complex political economy and specific institutional design. A war of attrition mediated by a weak and fragmented political elite, delayed painful stabilisation (Alesina and Drazen 1991); the influx of foreign funds, whose threat of withdrawal lacked credibility, lowered and redistributed the cost of such delays. In this narrow sense, Greece's case doesn't fit the argument made by DeLong and Eichengreen (1993), where Marshall funds are seen as expediting reform; but a more sympathetic interpretation would also consider the significance of these 'delays' in permitting the necessary consolidation of political authority, and averting more explosive social reactions, in a weak and demoralised country.

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[5] Consider the conflicting perspectives of, say, the military and civilian branches, the embassy and economic mission, personnel on the ground and those higher in the administration (in Paris and Washington), mission departments in charge of public works and investment and those in charge of fiscal and monetary stability. Then add a hierarchically ambiguous institutional framework – largely the product of a political compromise struck in Washington – to get a better idea of the difficulties besetting these early attempts at foreign aid management.